

the GAMER'S GUIDE to STARTUPS

by WONG MENG WENG

Pretend that start-up fund-raising is a video game with four levels, complete with monsters who try to kill you and a boss to defeat at the end of each level. This is your guide to the game.

"What's the single biggest fund-raising mistake you can make?"
"Playing at the wrong level."

LEVEL ONE

pre-seed

Describe your idea in the form of a problem-solution pair. Are you unusually qualified to execute the idea? Would it be hard for somebody else to copy? Will it be useful to lots of people? Useful enough that they will pay for it? Does it solve a problem that people will have when your invention is done? (assume 1 to 3 years development time.) Or does it exploit or answer some natural human desire? (It doesn't always have to be a problem/solution type opportunity – humans want entertainment and gossip too.) Have you checked to make sure that nobody else more competent, more experienced, or better funded is already doing it? Is your idea compelling enough that smart, hard-working people will want to work you for low pay, rather than working for themselves for low pay, or working for someone else for high pay? If your answers are anything other than: yes, yes, yes, yes, yes, yes, yes, then try again.

from Idea to Business Plan

LEVEL GOAL	write a business plan
YOU HAVE	an idea
TIME LIMIT	3 months
START VALUATION	\$0
END VALUATION	\$500,000
MONSTERS	A Solution Looking For A Problem may take over your brain
HELPERS	business planning workshops
YOU NEED	an original, scalable, technology or business model innovation
LEVEL BOSS	friends & family, or pre-seed incubation funding source

you raise
\$55,000

LEVEL TWO

seed

Build a prototype of your product. Show that the product is good enough that many people care to use it. You may need to file a patent, or a provisional patent. Filing will cost \$20,000. The point of this level is to find out if you can make something that people want. Me-too products are easy: somebody else has found something that people do want, but you have to build it again ... and good engineers hate reinventing the wheel. Original innovations are tough because whatever you build will be deeply new, and by definition people won't know if they want it until you build it. They might want it. They might not. (It may truly be undesirable, or the market may just not be ready.) If it turns out people don't actually want what you've built, game over; give up and start over with something else. This is a good time to develop Defensible Intellectual Property, usually in the form of a patent, but sometimes in the form of software that would be hard for someone else to write. First-mover advantage counts too. Some clever players take a shortcut: instead of building their product and then selling it, they sell their product and then build it. In some markets, like when you're selling to corporates, it's possible to develop all the marketing collateral, product brochures, data sheets, etc, and take it to a prospective customer; if you get a purchase order from that customer for delivery in eight weeks, you can then spend those eight weeks building the product; it'll be fevered, but at least you'll know there is a light at the end of the tunnel. If nobody buys, you might have to go back to the drawing board, but look on the bright side: you just saved eight weeks of building the wrong thing. In the consumer web app space, if it's easy to build, and you know your customers because you are one, just launch it.

from Plan to Prototype

LEVEL GOAL	make something people want
YOU HAVE	\$55,000. A plan. A founding team. Access to staff, contractors, friends. An official, dedicated mentor.
TIME LIMIT	6–12 months
START VALUATION	\$500,000
END VALUATION	\$1,000,000
MONSTERS	You might drift into consulting and never get back on track. You might listen to too many potential customers. You might listen to too few potential customers. Your team might fall apart due to differences in work styles or communication styles. You might not be able to hire the skills you need.
HELPERS	Cheap office space at incubators. Parents who don't charge rent.
YOU NEED	A working product/prototype that nonpaying users like a lot.
LEVEL BOSS	Angel Investors or Seed-Stage VCs

you raise
\$300,000

LEVEL THREE

Series A

Congratulations! You have developed a product that people like. For your next trick, make it pay. A little advice on pricing: do try to compete on features and functionality, not price. Especially in a young space, competitors must apply a value-based pricing model. Failure to charge a premium is a failure to validate market demand. "Better-faster-cheaper" is one way to innovate, but it's a hard business to be in. Better to innovate around a truly original concept that makes it possible to do something that could never be done before. Changing the world – that's why you got into this in the first place, isn't it? Surely it wasn't about the money. If you can refer VCs to paying customers who love your product, you've made their job much easier. VCs are only human, and they don't have the domain experience that you do. Will your idea succeed? Who knows? They certainly don't. You can pitch 'til you're purple but at the end of the day it all comes down to traction. Have you got it? Can you prove it? Show me the money! Specifically, your *pro forma* financials need to show that there's a lot of demand out there, and that you can sell it for more than it cost to make. Business 101. Lots of business models might work for your product. Don't just go with the first one that comes to mind. And remember: accounting and billing infrastructure can take just as long to build as the product itself.

from Product to Revenue

LEVEL GOAL	Discover your revenue model. Convert your users into paying customers, or gain new users who are willing to pay. Or, if your model is advertising, bring in lots of eyeballs and sell ads.
YOU HAVE	\$300,000. A product. A few people who use it without paying. Half a dozen people on staff.
TIME LIMIT	12–18 months
START VALUATION	\$1,200,000
END VALUATION	\$2,500,000
MONSTERS	Your competition may demoralize you. Your team may argue fruitlessly about which features to add and what products to build. You may enter a price war in an effort to gain market share. You may waste months fundraising and not actually executing. You may have trouble crossing the chasm.
HELPERS	Contractors and infrastructure providers you can outsource to.
YOU NEED	A product that paying users like a lot.
LEVEL BOSS	Series A VCs

you raise
\$2,000,000

LEVEL FOUR

Series B

If you can reach profitability, somebody will buy you. And if they don't, you can at least keep running and pay yourself a decent salary. (If you can't pay your staff and yourself a decent wage, you're not really profitable.) Some companies reach this point without raising external capital: we call it "bootstrapping." Few CEOs can stay with a company through its entire life cycle from startup to growth-stage SME to mature big company. Start on your exit strategies: it's time to give investors their money back. And start thinking about succession: there's nothing so sad as a CEO who can't keep up with the demands of his office: the technologist who likes to get his hands dirty because deep down he hates managing; the team lead who can handle ten but not a hundred; the authoritarian who cannot delegate ... if this is you, do yourself a favour and step aside. The Game Guide stops here. Past this point, either you already know what to do next, or you need to fire yourself and hire someone who does. Good luck!

from Revenue to Profitability

LEVEL GOAL	Profitability. Acquirer.
YOU HAVE	\$2,000,000. A product. A way to charge money for it. Users who'll pay. 10 to 20 people on staff.
TIME LIMIT	12–18 months
START VALUATION	\$4,500,000
END VALUATION	\$9,000,000
MONSTERS	You may have to completely rebuild your product in a way that actually scales to many more users than you had originally expected. You may lose money on certain kinds of customers, and you may gain too many of those kinds of customers. Your position may outgrow you.
HELPERS	Channel partners and distributors who will help amplify your sales model.
YOU NEED	To make more money than you spend.
LEVEL BOSS	Series B VCs

you raise
\$5,000,000