



2017 4Startups: Effectual Growth

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Agenda for the day

- Keys to growth: Myths and Facts
- Experiential exercise
- Debrief on the exercise
- Interactive lecture on effectual growth

Is Funding from VCs the Key to Growth?



Let's look at the numbers

- Of 500,000 employer firms that get started in a year, less than 1,000 get VC funding
 - 9 out of 10 VC funded firms fail
 - You have a 50% chance of getting fired a year after you sign a VC term sheet
 - More than two-thirds of firms that go IPO take no VC (or any kind of formal) funding
- In India
 - ~ 285
 - 28
 - 15

So what is the key to growth?

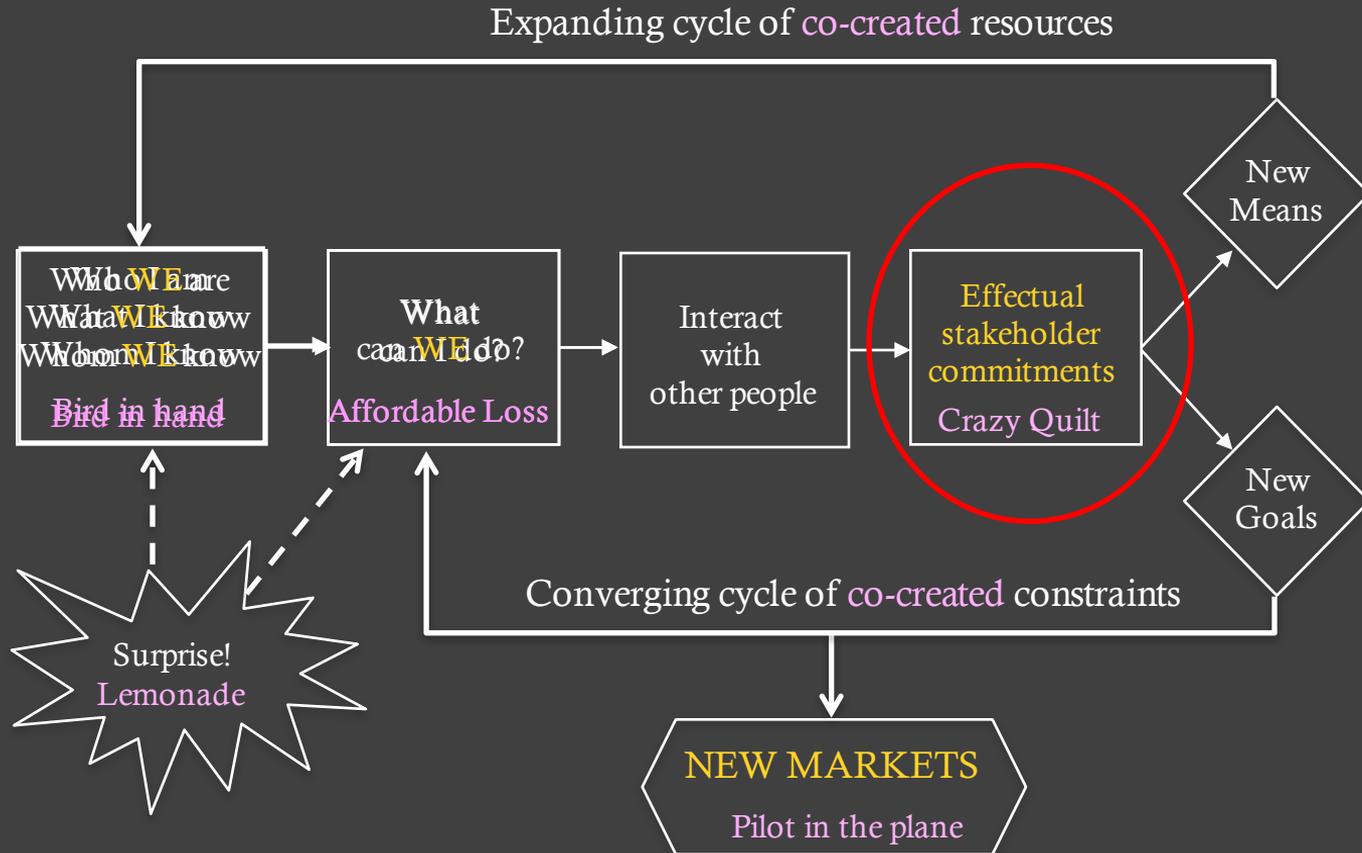


Partnership

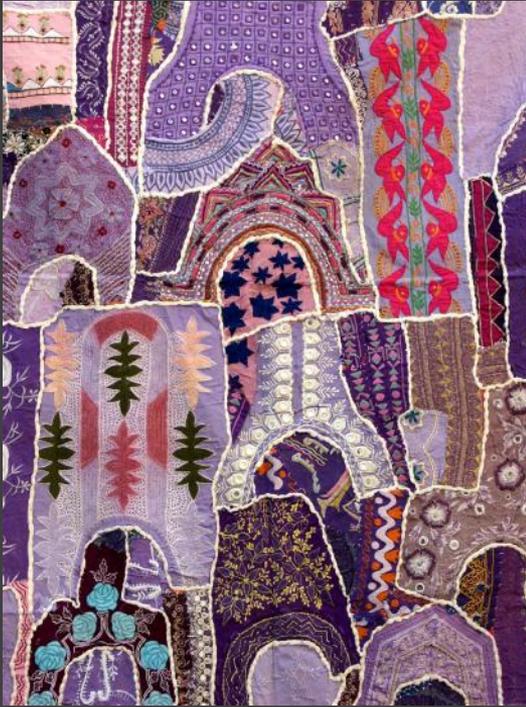
Partnership

Partnership

Co-creating the Future through Effectuation



How to Build the Crazy Quilt?



It all begins with the ASK...

Miss Jenny's Pickles

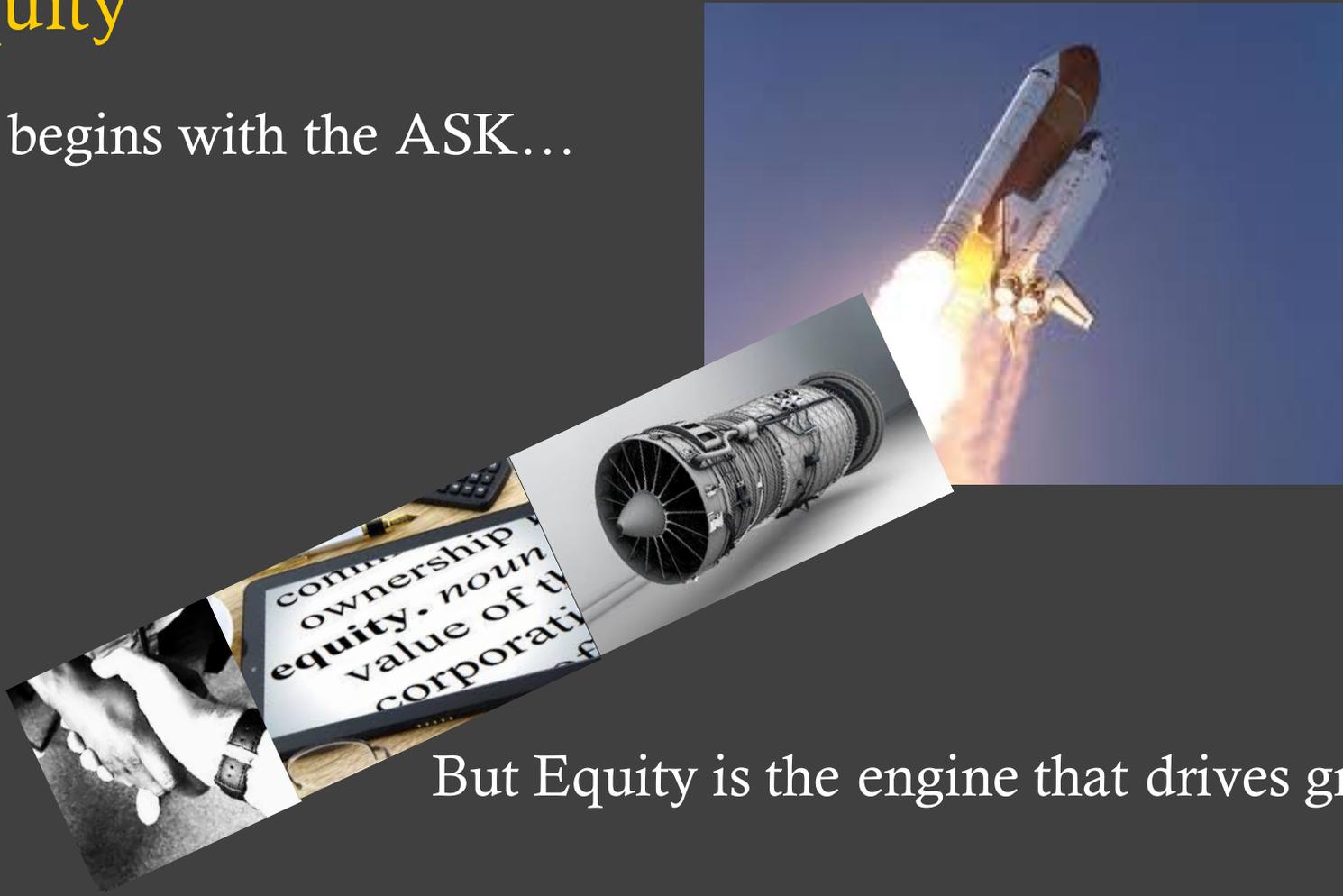




60
MINUTES

Equity

It all begins with the ASK...



But Equity is the engine that drives growth

What do we know about Equity?

- Most entrepreneurs, even in developed countries, don't understand how to structure equity partnerships
- And there is virtually no good research on this, especially in the entrepreneurial startup and growth phase
- Almost all the studies are about large publicly traded (listed) companies



Equity Exercise Debrief

- 
- How many of you did not reach a deal?
 - How many split 50-50 in Phase I?
 - How many split 50-50 in the actual negotiation during the break?

Equal Splits

Good idea? Or bad idea?



- What happens with disagreements?
- More ventures fail due to partner conflicts than any other reason

But in case of unequal splits, how do you decide who gets more?



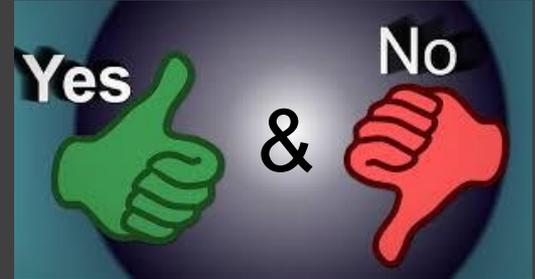
Unequal Splits: Who gets more?

- Idea
- Money
- Time and effort
- Contacts
- Experience
- Risks
- Opportunity costs

**Equity = Compensation
for inputs?**

What is Equity, really?

- Equity =
- Compensation for inputs?
 - Share in rewards?
 - Decision rights/control?



Equity is the joker in the pack
It can be all of the above, but *need not be*

So HOW do you split Equity?

Think baby, not bicycle



- Give control to whoever contributes to the health and growth of the baby
- Remember everything changes over time, including the cap table
- And most importantly, there is **ONLY** 100% equity available in total!

How Important is Equity?

- Vijay Shekhar Sharma Interview

How Entrepreneurs Build Ventures: Conventional Wisdom (Causal Logic)

- Come up with a brilliant idea
- Show there is a large market for it
- Write a winning business plan
- Raise money
- Build and grow the venture
- Go public or sell
- Go off to the Bahamas



Two Decades of Research and Teaching

How Expert Entrepreneurs Build Enduring Ventures

- At least 15 years experience founding and running companies
- Multiple ventures including successes and failures
- At least one IPO

They Use Effectuation

Principles of Effectuation

Crazy Quilt



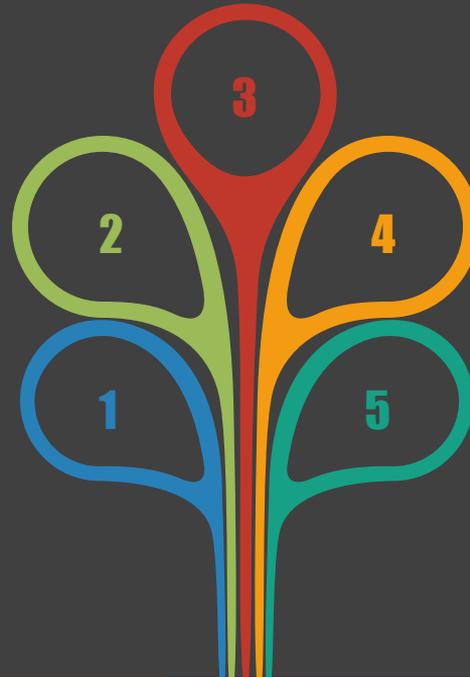
Affordable Loss



Lemonade



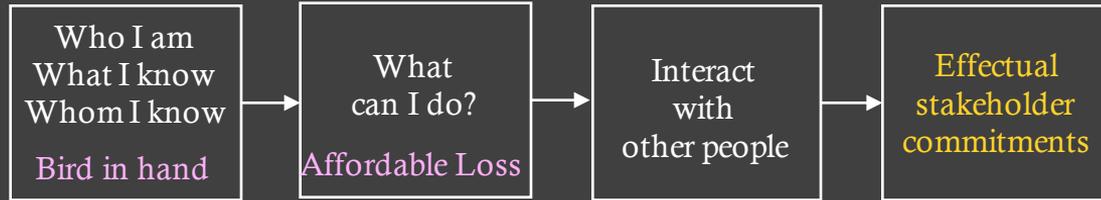
Bird-in-hand



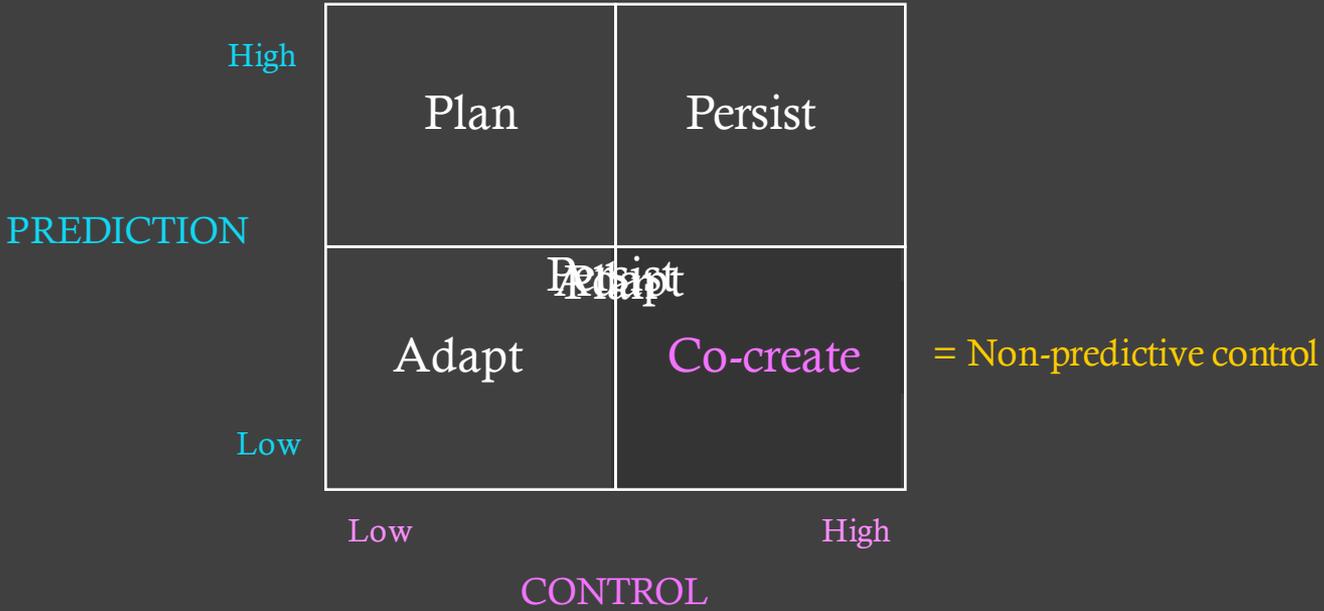
Pilot-in-the-plane



Cocreating the Future

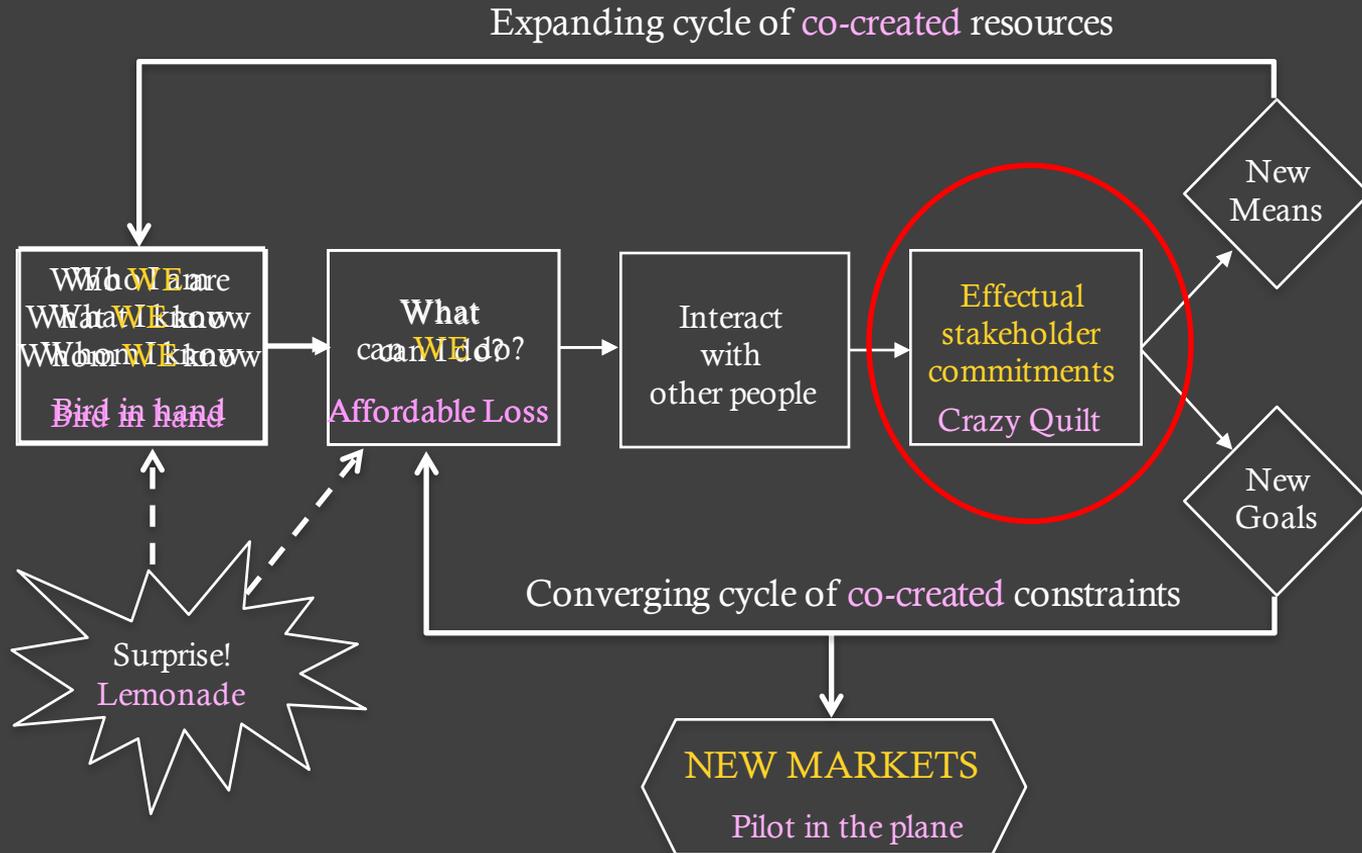


Pilot-in-the-plane



How do you control a future you cannot predict?
You co-create it through stakeholder commitments

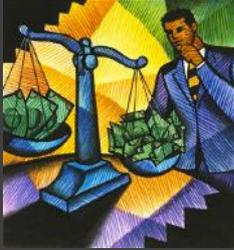
Co-creating the Future through Effectuation



Crazy Quilt



Affordable Loss



Lemonade



We have come to think of the actual as one of all possible worlds. We need to repaint that picture. All possible worlds lie within the actual one.

-- Nelson Goodman, *"Fact, Fiction, Forecast"*

Bird-in-hand



Pilot-in-the-plane



www.effectuation.org

To learn more, visit

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