



AMBIT Entrepreneurship Model

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The Alaska AMBIT Program, Inc.
Contact: Tom Myers
5313 Arctic Boulevard, Suite 210
Anchorage, Alaska 99518
www.ambit.cc • ambit_team@ambit.cc

Access to Capital Axis

Minimal Personal Investment

So, have you invested any of your own time and money into this great idea of yours? They say that ideas are a dime a dozen. In fact, they are probably worth a lot less than that. Yes, less than 1.2¢ each. The reason is that the ideas are completely unproven and untested. The first test of a possible good idea is if someone like you is convinced enough to put some time and, more importantly, some of your own money behind the idea to see if it's viable.

If you've put some of your own money into testing out your idea, well, then there is a chance that the reason you are now looking for more money is that you are convinced that your idea has merit. Enough merit to proceed to the next point on the chart: *Significant Personal Investment*.

Finance

How much money have you invested in your idea so far? Is it significant? The difference between 'minimal personal investment' and 'significant personal investment' will be different for people with different levels of access to their own financial resources. A good question that someone might ask is whether or not you have pushed yourself yet. In other words, if you're making \$40,000 a year at your day job and the personal investment you've made is to fly yourself to Hawaii (where you and your family were going anyway) to test out your new suntan oil formula while you were on the beach at the Marriott...well, you see, this is not really pushing yourself.

However, if on your Hawaii trip you spent \$1000 to conduct a focus group, well...you're on your way.

Sales

Real simple. Have you sold your product or service to anyone yet? If the answer is yes, then you might be ready to proceed...by investing some more of your own money and maybe someone else's money too.

Operations

Have you started to look at how to physically provide more of this product or service (your great idea) to the hordes of folks that you eventually want as your customers? Time to start thinking about a plan for how you will do this.

Management

Who is running the show? Well, it's obviously you right now. Are you sure that this is what you want to do? Passion and competence are both important. Make sure that you have both. If you don't have passion for this idea of yours, real passion, now is the time to bail out. If you don't have all the competencies needed, don't worry. No one has all the skills needed to do what you are thinking about doing. Now is the time to start thinking about putting together your team.

Significant Personal Investment

This point is interesting because 'significant personal investment' is relative. What is significant? If you are pulling in \$100,000 a year from your day job and have a fat savings account but have not thought that it was worth it for you to invest ten grand into your own idea, well, why should anyone else think that it is worthwhile to invest? After all, chances are no one knows more about how good an idea you have besides you! You have more 'inside' information than anyone else and you've not made a significant personal investment? "Why not?" someone might ask, with good reason.

And if you only make \$30,000 per year and don't have a fat savings account but did get a \$1000 advance on one of your credit cards to get that Hawaiian focus group info...and the data is looking good...well, congratulations! Someone is going to see that as a significant personal investment...and money well spent.

Finance

As you get ready to present the idea of investing in your business to outsiders, keep in mind that they might need to see something that charts how much money you have invested in your business and how much it is costing you to keep the business going each month. Folks will also want to see some sort of plan for how you will be spending the money that you will want them to invest in your company, when they can expect to see their money again, what sort of return they can expect, etc. In other words, start working on a business plan for your business. There are many templates and software out there that you can use, some are free and some will cost you a few bucks. Also, now is a good time to hire an accountant to help you manage the company's books...unless you happen to be a good accountant or bookkeeper yourself.

Sales

How are your sales going? Are you a natural born salesperson? What will sales be like in two months? Six? Total for your fiscal year? Next year? When will you be profitable? Again, your business plan will help you to project these numbers for internal purposes and for potential external investors. Your plan will also include the number of sales calls that you plan to make (Lots of cold calling!) and the expected percentage of calls that will become orders...also the percentage of orders that will become re-orders.

Operations

OK, you are making widgets yourself in your garage or in your den or your backyard shed. Can you keep up with forecasted sales growth? Do you need more space? How much more? When? Again, your business plan will help you to project future needs. Is there a way to make the widgets cheaper? Faster? Start figuring this out and you will be on your way to preparing for discussions with outside investors.

Management

Speaking of widgets, do you really want to spend the 12 hours a day that you will need to make the widgets? And also do you want to spend the 12 hours a day selling these widgets. Oops...how about sleep? Your family? Your health and sanity? Maybe its time to start to look at adding to your management team. Maybe it's time to outsource one or more of the functions that someone else can do for you faster and cheaper...while freeing you to focus on what you need to do and what you do best and what you are really passionate about doing. After all, you'd better enjoy what you are doing...you'll be spending a lot of time doing it.

Friends, Family, Fools, Grants and Others

Yes, "the three F's". Friends, family and fools are the most likely source of outside capital to first grow your business. The reason is that friends and family are the people who know you best and trust you the most with their money...you hope! It is probably too soon to approach your bank about loaning you money because your business does not yet have enough tangible assets for the bank to use as collateral for a loan. Where do fools fit in? Your business is very risky right now, and investors have a good chance of losing any money that they invest with you...any and all of it. If they are neither your friend nor your family and they are willing to lose all the money they invest with you (despite your rosy projections to them of the incredible wealth you can generate for them) then fools they are indeed!

OK...don't forget about grants. Yes they do exist and yes, they have been useful in helping many businesses to test out new technology before commercializing it. However, grant writing is a bit of an art and it can take a lot of time that you should be spending on growing your business. Think about hiring a grant writer on a part-time basis perhaps from a local university to help you to identify possible sources of grant money and then to write the grant proposals.

Finance

Before you should begin to seriously consider bringing in outside capital from people that don't really know you the way friends and family do, consider what you can do to maximize the financial value of your business first. Your goal at the next step will be to sell shares in your business to investors at the highest value possible.

Sales

One way to maximize the perceived value of your business to outside investors is through sales. For one, this proves that people are willing to reach into their wallets and pay for your product or service. What can you do now, before you bring in more capital, to boost sales to the next level?

Operations

Are you a salesperson or an operations person? Outside investors are going to be leery if you are still wearing both of these hats. Investors look for a good management team even more than they look at a good idea. What can you do to add value to your business by making sure you have a strong team in place with complementary skill sets (or about to be in place when you get your next round of funding)?

Management

As we mentioned above, seasoned investors look for a good management team even more than they look for a good idea. What can you do to show them that you have the experience and/or training to make you a good manager? Remember, the reason people will be investing in your business at the next stage is primarily because of you...and if that's not the reason, watch out!

Angel Investors

Angel investors are quite simply people who are willing to invest their own money in another person's business. Most important in knowing where to look for these people is remembering that they are disproportionately characterized by the fact that they are or once were entrepreneurs themselves. Chances are some angel investor helped them at one point. When you are looking for angels, think about 'smart money'...look for someone who can help you financially and help you in other areas as well, maybe through industry knowledge or experience in a functional area where you might be still growing.

Normal amounts of angel investments in the U.S. are likely in the \$20,000-\$100,000 range so if you are looking for a lot more than that you will need to bring in more than one angel investor, and this is another area where an angel can help...by finding another investor. Remember, they tend to flock together!

Keep in mind that your business is still very risky...an angel could invest \$50,000 with you and lose 100% of their investment...believe us, it happens even to overly smart and optimistic entrepreneurs like you! To compensate for the risk, it is fair for angels to look for higher return rates than they might get from less risky investments. Remember, they could put that \$50,000 into the stock market instead of investing it with you. If an angel investor can see a way to make at least a 50% return on their investment in your company each year that you have their money, and then they might find the risk to be worth the reward.

Gasp! 50% per year, you say. Yes, but remember that that investment in your business will help you to grow the value of your own share of the company by that much or more.

Some other angel facts for you to keep in mind:

Sources of angel investment in U.S.

Close family	41.8%
Other relative	10.5%
Work colleague	6.1%
Friend/neighbor	28.5%
Stranger	9.4%
Other	3.6%

Source: 2003 Global Entrepreneurship Monitor

Pay-Back Time

6 Months	20.4%
1 year	8.6%
2 years	17.7%
5 years	24.7%
10 years	5.5%
20 years	2.3%
Never	20.8%

Source: 2003 Global Entrepreneurship Monitor

Why, you ask, might an angel investor expect to never get their money back? Well, it could be that these have waited so long at this point that the business they invested in has already gone belly-up...or they were the wealthy parent giving some money to their miscreant children without really expecting the business to amount to much of anything at all. Alas, friends, family and fools!

Finance

At this transition you probably have several years of a track record that the next investors can look at in the form of financial statements: balance sheet, income statement and cash flow statement. Now is a good time to consider having these financial statements audited by an accounting firm.

Sales

Sales are continuing to grow. What next stage investors will want to know is how you plan to expand sales into new geographic territories, including internationally, and also how you plan on launching new products and services.

Operations

The next investors will be looking at ways to run operations more efficiently than you are now, and more efficiently than any potential competitor. What is your plan to increase operational efficiency? If you don't have a plan, you had better start putting one together for your next transition. Are there better suppliers out there than who you are now using? Can you get existing suppliers to make investments in their own businesses in order to accommodate your business' next growth phase?

Management

Get out that recruiting wish list file from your top desk drawer. Next stage investors are used to working with world-class managers. Is that you? If not, and don't take this the wrong way, maybe it is time for you to step aside and give the reins of the business to someone else, perhaps someone that the next investors are more comfortable with. This does not mean you are out of a job, it just means that you and the investors want to make sure that you have the very best management team running the business...this reduces the risk for all involved and maximizes the chance that the value of everyone's shares in the company increase as planned.

Venture Capital

Unlike angel investors, when you think about venture capital, think in terms of other people's money. Venture Capital (or V.C. or 'private equity' professionals) raise funds from wealthy investors and from institutional investors for the sole purpose of investing in companies that have successfully grown through the boot-strapping stage (that was your own investments in the company) and through the angel investor stages of funding. You are now at the point where the amount of money that you need to grow big and grow fast is in the million dollars plus stage.

Different venture capital firms specialize in different industry sectors. Look for the firms that are interested in your sector. And make sure that your angels are familiar with these firms; this will help invaluablely with introductions when the time is right.

Keep in mind also that at this point your business is less risky than when you brought in that angel investor, so the expected return that the V.C. wants here will also be less. However, what they are also looking for is scalability and explosive growth!

Venture Capital Investment by industry (Q4 '04)

Software (\$1.2B, 212 deals)
Biotechnology
Telecommunications
Medical devices & Equipment
Networking & Equipment
Semiconductors

Media & Entertainment
Computers & Peripherals
IT services
Healthcare services
Business Products & Services
Industrial/Energy
Electronics/ Instrumentation
Financial Services
Retailing/Distribution
Consumer products & services (\$4.0M, 5 deals)

Finance

Hopefully your business is now making a profit upwards of \$1 million per year. After you have maintained and grown this for a couple of years, you and your investors would be wise to discuss again the possibility of using the public equity markets as a way to continue to fund your company's growth and expansion. Also, think about your banking relationship(s). Your company is growing and will continue to do so. Can your bank keep up with your company's cash and growth needs?

Sales

With annual profits above \$1 million, it is not hard to imagine that your company's annual sales are surpassing the \$10 million figure. Sales are one part of a company's marketing functions and as President you had better be comfortable and knowledgeable about your company's sales. Keep investing in training for your sales team and keep hiring the best. Make sure that your compensation levels are also the best or you risk losing key employees to some of the upstarts that you have probably inspired by your company's successes to this point.

Operations

As you get ready to consider the option of tapping public equity markets, and the investor scrutiny that this will involve, now is another good time to re-evaluate your operations plan to make sure that you have figured out the very best way to produce and deliver the value proposition that your customers expect. The possibility of a low cost competitor entering your market is very real. Can you drive down your own costs first? Also, you have not stopped growing. What is the operations plan for handling a two-fold growth in the next two years? How about four-fold growth in capacity?

Management

Much of your time now involves managing other people in your organization as you get further away from the actual product that your company makes and the customers that buy from you. It

is essential to continue to hire good people, compensate them well and delegate to them. Does your CFO have experience running public companies? Does your legal team? Do you?

Banks, Stock, Bonds

Unlike when you first started your company, your business now has significant tangible assets that banks will be very happy to use as collateral for loans. The company still is growing rapidly and your need for cash to finance the growth is still a major concern. If all is going well, the banks will be a good source to help you finance your working capital needs.

You have been profitable for a couple of years now with earnings above \$1 million each year and the public equity markets are now a viable source to consider both for your company's continued cash needs and for an exit strategy to get cash to buy out some of your initial investors. Hopefully by this point you have been nurturing relationships with financial service companies that will be able to underwrite your initial public offering (IPO) of stock...as well as subsequent rounds of stock and bond sales.

Business Maturity Axis

Ideas & Connections

Great, you have an idea for a new business. Chances are if you can come up with one idea you can come up with others. How do you determine which one idea is the best one to pursue? Or maybe you can pursue a few ideas simultaneously. For every 10 businesses that start, only one or two will be what you might imagine to be wildly successful. The rest will either fail miserably or bump along making a little money but not enough to really qualify as an attractive investment. Think about technological, economic and demographic trends as you consider an opportunity analysis for your business ideas.

Also, remember that you most likely will not be running this business alone. It is simply too much work for one person; the addition of other connections (individuals or strategic corporate allies) with complimentary skill sets to your own assures that you have a better chance of being around five years from now and a better chance of being wildly successful.

Finance

In his textbook *Patterns of Entrepreneurship*, author and entrepreneur Jack Kaplan suggest that stronger business opportunities, from an investors point of view, will show gross margins of 30-50%, 25% or more ROI (return on investment) each year, and 10-15% or more after tax profit.

Sales

Again, according to Kaplan, consider a stronger business opportunity; this suggests one where your company can achieve a market share of at least 20% by year five. Look for a market that has potentially \$100 million in sales (That's for everyone, not just your own) and one that is growing in size 30-50% each year.

Operations

As you get ready for to progress to the next stage, think about the operations plan for your company. Who will be performing what functions? Will your company be actually manufacturing the product or actually delivering the service to your customers or will you outsource some of these functions to another company?

Management

Your dream idea on how to make yourself millions of dollars might be to make widgets, which is fine, but in the process you will actually be spending a lot of time managing people and processes. Are you sure that this is what you want to do? If not, now is the time to speak up. This does not mean your widget idea is not going to work, it just means that you might need to identify someone who you can bring in to work with you to run your company...and perhaps to help to manage you!

Business Model/ Proof of Concept

Now that you have picked what you hope will be the right business opportunity to pursue it is time to prove that you are on the right track. What is your business model? In other words, what do you propose that your company will actually do that will motivate people (or other companies) to actually pay your company for what it does? An investor (such as yourself) might want to see some proof before actually putting some money in your company. Chances are that you are the only one who is financing the business right now. What can you do to prove that it makes sense to others (and to yourself) to put more money into the company?

Finance

You are still boot-strapping the company at this point and you are probably using personal savings, credit cards and/or a home equity loan to do it. Don't spend any more money than is necessary. How much is that? Well, invest just enough to be able to show other investors that your idea for a business has wings.

Sales

An excellent way to prove your concept to investors is by showing them that you have already sold your product or service to real customers for real money! If this is not possible, perhaps because you can only afford a prototype at this point, get a letter from customers saying that they will sign a contract with you to purchase your product or service for such-and-such price when you bring it to market.

Operations

If you have not yet built a prototype, now is the time to do so. You can either do this yourself or you can hire a company to do it for you. If it is a service that you are proposing, now is the time to actually deliver the service to some customers (or potential customers) and get their feedback.

Management

You have limited time and limited money at this point. Your major management decision is going to be to set yourself in the right direction. What do you need to do first, second and third? What results do you need to see to justify to yourself putting more time and more money into your idea? What will be a sign (in dollars lost!) that you should not pursue your business idea any further?

Research & Development

One of the biggest problems that some folks have is trying to figure 1) out how much to spend in this early stage of your business on research and development and 2) what type of R&D needs to get done.

Think about the R&D at this point in your business life cycle as one very important step for increasing the value of your business in the eyes of investors. The very first research that needs to get done is to ask potential investors what it is that they need to see from you as far as R&D goes to convince them that your business is a viable investment for them. The second step is to ask your customers (or your potential customers) what it is that they need to see from you as far as R&D goes to convince them that your proposed product or service will be a valuable purchase for them, one that solves a significant and immediate need.

Finance

How much should you spend on R&D? The answer is to spend just enough to meet the requirement of potential investors and at the same time meet your ROI requirements. If investors need to see a prototype in order for them to envision your idea, ask them if building a scale model (that probably will not have total functionality) will be enough to convince them to invest.

Sales

Another possible area of research that investors will require of you is to show that you have already sold your product or service to a certain number of beta customers. You may also be asked to get so many companies of a certain size (as measured in their total annual sales, for instance) to sign letters of intent that they will be spending a certain amount of money to purchase your product, mutually agreed to by you and the investors.

Operations

The most important component of operations at this point is managing the R&D process properly to make sure, whether you are outsourcing this function or doing it yourself, that it gets done in a timely manner and stays on budget.

Management

Pay attention to who you select as a vendor if you are outsourcing your R&D. Make sure that the information that you get back from your research actually answers the questions that need to be answered. This is different from operations because you can still be on time and on budget and get information back from your research that is not useful to you, your investors and your customers. If you manage the R&D process correctly you will be able to increase the value of your business for you and for your investors, as measured by the share price that you will be able to negotiate when you sell the next round of equity in your company.

Startup

As the phrase ‘startup’ implies, you have now literally opened your doors and are ‘in business’. You have put some of your own money in, a little at first, then a little more, then a lot more. You even might have convinced some others, family friends and fools, to invest in your startup venture. This could be either a new business or the purchase and ‘re-launch’ of another business that might not have done well under someone else’s guidance. But with your expertise, experience, wisdom and connections...you believe that you will succeed. Think again. 50% of these startup businesses will fail.

Finance

Be prepared to make mistakes. You will likely be spending two times the money financing your startup as you might have originally planned. Make sure that you have access to enough capital and make sure investors know that if you succeed, you will likely need a lot more capital to finance rapid growth.

Sales

Be prepared to listen to customers and listen to your sales force. Test different pricing and different bundling options in order to see what works best.

Operations

Be prepared to spend twice as much time with your startup as you might have originally planned. Be prepared to switch suppliers (and employees) quickly if either is not able to deliver what you and what your customers expected. The next stage is going to require that this part of your business operates on a process of flawless execution and continuous improvement.

Management

The startup stage is where you (or your spouse) really might begin to ask “what the heck are you doing with this business?”. You are now no longer managing an idea but a real business with real people who are depending on you for their livelihood and or for their investment. Prepare to lose sleep. Most importantly, at this stage and beyond, manage yourself...this includes your health and your family support system; they may be all that is left if your business tanks. Make sure to line up new managers to help you out and delegate to them; you will need their help if you want to succeed in the next transition.

Rapid Growth

This is the exciting and frightening time when you realize that your marketing and operations plans are actually working, and it's the time when you won't believe how much cash is required to finance the rapid growth in sales and in staffing. Hopefully you managed everyone's expectations well, including your own and your investors, so the surprise is a good one...that you really did hit the sales figures that you projected and, for good reason, you do need a lot more capital to finance rapid growth. Are you ready to see your business through a period where it is growing two-fold to ten-fold annually? This may be just ahead for you and you need to be ready for it.

Finance

The good news as you get ready to transition to the next point of your venture's life cycle is that it is likely to not need as much cash as you have been forced to use to fuel the beast in the current 'rapid growth' phase. Get ready to start thinking about what to do with 'excess' cash. Some might go back to investors as a dividend or to early investors to buy back their shares. Think about using some cash for acquisitions of other companies and for growth into new products and new territories.

Sales

Make sure that the people that you have placed in charge of sales have been through the deceleration that will soon be pending. They might have been good at riding the trend, predicting next year's projected sales based on the prior year's...but now things are about to change. Your product line is mature and you have more competitors. Sales growth will slow unless you are able to successfully launch new products, sell into new markets and succeed with your acquisition strategy.

Operations

Up until this point, operations have not had to focus too hard on cost cutting and efficiency because of your phenomenal sales growth. Now that sales growth is slowing, it will be critical to understand how you can make your operations more and more efficient while still delivering the value proposition that your customers want and that got you this far in the first place.

Management

Take a good look at yourself in the mirror. If you have been able to navigate your company to this point successfully you may not be the right person to manage the company through the next phase of sustained (but not rocket-trajectory) growth. The next step is a battle for market share; you may not have the experience and thus not be the best person to fight those battles. Many entrepreneurs launch and grow businesses and then, as part of the plan when they get to this point, sell their stake in the business (or at least some of their stake) and use the proceeds to try again with another start-up idea.

Sustained Growth, Market Share

It's not fair to say that the exciting part of your business is over, because the phase that is centered around sustained growth and market share can be very lucrative and stimulating from the point of management science, marketing research, global finance and supply chain logistics. Your business is now mature, but you may not have had prior experience in these functional areas to the degree that you will need. You are (or you are about to) be truly competing at a global level, competing against other more seasoned managers who themselves may never have been entrepreneurs.

Finance

You now have excellent access to the financial markets, both through banks and stock markets, but you have access in some cases that might be limited to what your company is today, not what it will become (or must become) tomorrow. Start managing your financial partners' expectations of what your company will need to do to reinvent its self. Your goal is to maintain a smooth flow

of capital, minimize surprises, and have the flexibility from financial partners for you to take the company in the next direction.

Sales

At first, you can develop your sales of new products (or of new technologies) as a skunk-works that is financed by your core, mature business lines. The information that you gather from these new endeavors will be the value-creating 'market research' that you will need to use to prove that a significantly large enough market exists to warrant new investment, either from internal organic sources or from external investors.

Operations

Like sales, perhaps you can use some excess space or excess capacity to create a skunk-works to test some of your ideas about how the new product or service (or new company) that you have your eye on can manufacture what you need most efficiently. On the other hand, don't be afraid to do this phase of operations off-site in order to keep it under the radar if there is a need for stealth.

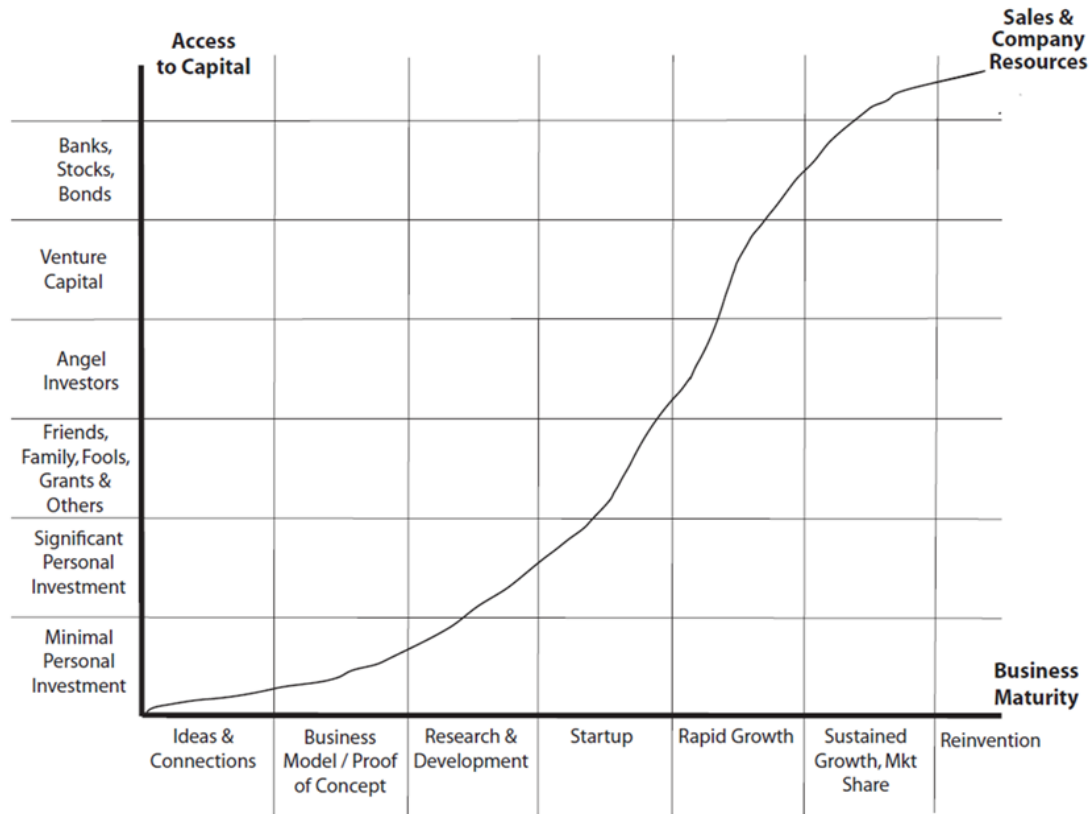
Management

Now is a good time to fine-tune your skills at delegating if you have not yet perfected them. Think about who will be running the next iteration of your company or the next iteration of your vision, your idea. If the answer is you, then ask who will be running the mature company? Make sure that you have a clear succession plan in place and that your key partners and managers are comfortable with your choice.

Reinvention

You don't get your company to this stage and just click your fingers and reinvent yourself. Instead, you have been planning for this stage all along. How you plan to reinvent your company, by launching into new markets or into new technologies or both, has been something that you and your inner team have been talking about for a while. Remember, just because you succeeded in taking your company through all the phases of the Entrepreneurship Life Cycle does not mean that you will succeed again in the reinvention phase. Entrepreneurs by nature are overly optimistic and overly confident in their own abilities. You are now more than an experienced entrepreneur; you are an experienced manager. Reinvention into new (to you) technologies and simultaneously into new (to you) markets is the riskiest venture you can imagine. Think about how you might be able to reduce your risks and think about how you can increase your return on investment to compensate for the added risk. Good luck to you!

AMBIT Entrepreneuring Model



This model was developed by the Alaska Agriculture, Manufacturing, Business, Industry and Technology Program, Inc. (AMBIT) to do the following:

- Help entrepreneurs identify their stage of company development;
- Create a series of tasks/steps that entrepreneurs must take to grow their companies to the next stage;
- Assign the appropriate public and private resources to help take companies to the next stage. Target those resources toward specific tasks for maximum benefit by the entrepreneur;
- Clearly place responsibility for moving companies to the next stage in the realm of the entrepreneur, and place agencies and resource providers in supporting roles;
- Identify gaps and overlaps in resources that are provided by public and private agencies; and
- Maximize the leverage of scarce (and expensive) consultant time when working with entrepreneur clients.

AMBIT uses this model to leverage its consulting resources with its clients, including winners of the Alaska Marketplace, Business Plan Competition, and manufacturing businesses