# Startup Investment Guide

**10 steps to assess if a venture is suitable for investment**

board of innovation

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We make corporations innovate like startups, mixing proven methods from Design Thinking and Lean Startup.

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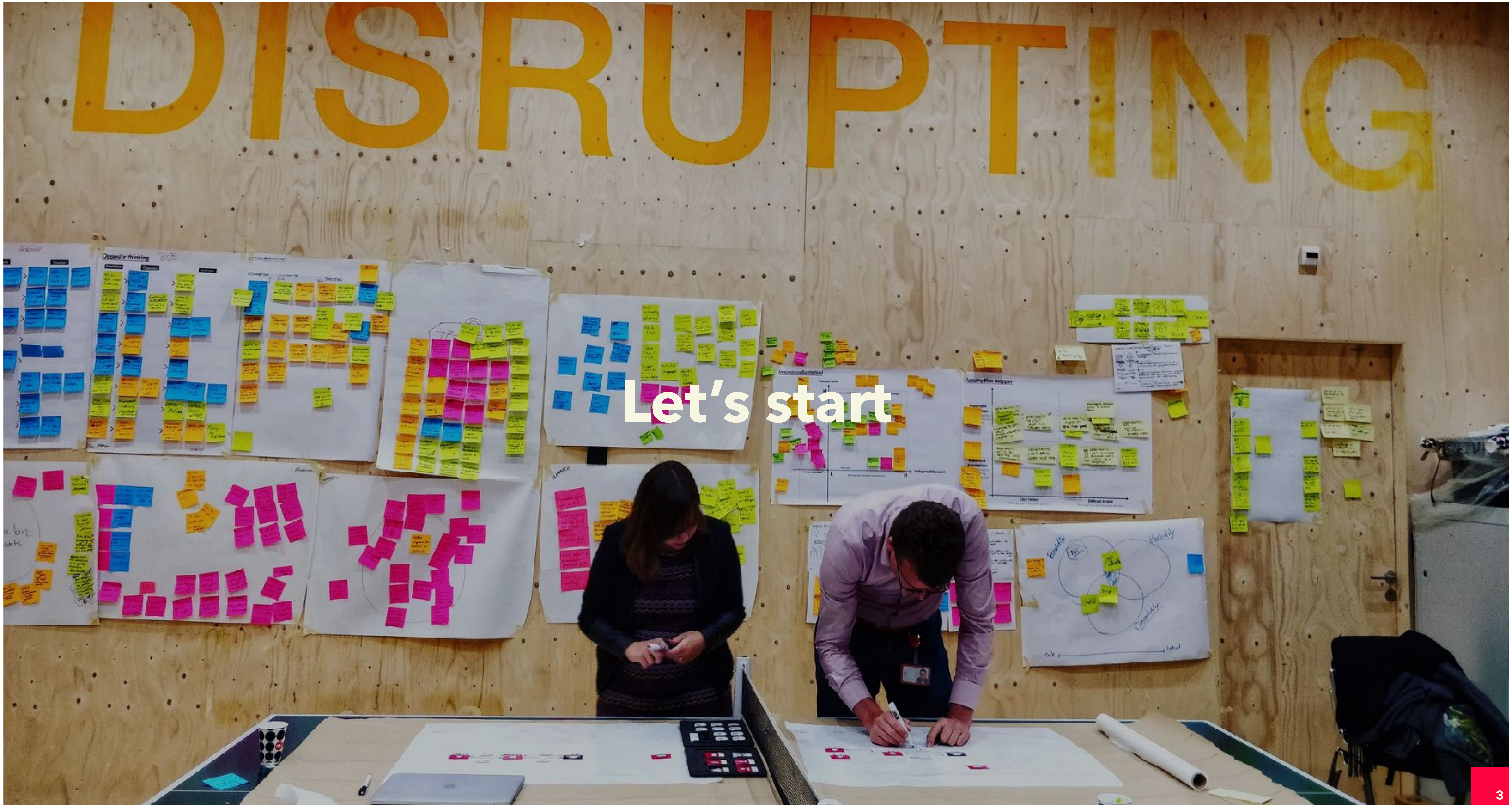
**Some of the clients with whom we are proud to work**

ING, Roche, KLM, Volkswagen, European Commision, Proximus, Philips, adidas, P&G, Engie

# Let’s start



# 10-step guide to evaluate a startup

**PREPARATORY WORK, LIGHT EFFORT**

1. Kickoff considerations
2. Objectives and Strategy
3. The Pitch
4. Information Exchange
5. Venture Maturity Evaluation
6. Impact vs. Activity Metrics

**HANDS-ON, INTENSIVE**

7. Venture Validation
8. Venture Valuation
9. Investment Criteria
10. Final decision

This playbook provides a structured approach to evaluating a venture for potential investment.

We have outlined **10 key steps to follow** in order to validate a venture's potential and justify an offer for investment.

Based on the venture's maturity at evaluation, proven by existing evidence, you can adjust the effort level involved at each of these steps. In addition to this, there is a **final checklist** to bring focus to the eventual investment decision.

# Why?

If you're reading this guide, it means that your company is probably **interested in investing in one or more startups**.

Prior to making an investment decision, we have to make sure that the opportunity makes sense both **strategically** (with a validated offering along with a compelling and competitive go-to-market path) as well as **financially**. We therefore need to proceed step by step to evaluate the investment opportunity based on validated evidence.

**so this guide has almost 100 pages**
**…what if you only have 10 minutes?**
**We got you covered!**

# 1 pager checklist

**Strategic fit**

- ☐ Does the startup fit our investment strategy? Are we smart capital?
- ☐ How high of a risk would this be?

**Startup**

- ☐ Is the team unique capable to validate/ execute the startup?
- ☐ Is there a continuous learning mindset?
- ☐ Is the offering a painkiller or a vitamin? (Problem-Solution Fit) Both are fine, but find out whether the problem is worth solving!
- ☐ Is the company undeniably differentiated?
- ☐ Is the market opportunity compelling enough?
- ☐ Do they have a specific niche to focus on?
- ☐ How much is customer traction growing?
- ☐ Is the business model scalable?

## But, if you have enough time, let’s go a bit more into details…

# Step 1
# Kickoff considerations

SOME SUGGESTIONS BEFORE WE START

# The Investment before the Investment

At the kickoff conversation, make it known that before making a decision, you will run a rapid evaluation track that will in reality benefit both parties. For your organization this means peace of mind and for the venture it is a valuable validation exercise that builds the relationship!

By following these steps, you'll show the venture's what smart capital means to you! Make them understand that you're putting the 'smart' on the table before putting the 'capital' on the table. Keep in mind that before you have a formal investment/ actual financial investment, you will be doing a serious investment in time, energy and knowledge by following this guide, **before investing with money.**

**First investment**

**Second 'real' investment**

# Some considerations

**Not an intimidation doc**
Use this document internally only. This will overload and intimidate any startup. Print the checklists before conversations to use, but don't share the whole document.

**Select wisely**
The checklists are non-exhaustive but still very elaborate, and might be a huge burden for the startups. Only ask for the info that is mission critical to you, and the phase of the startup. Ask what you need only.

**Attitude over info**
If a startup cannot answer questions, check their attitude. It's all about how they handle questions they don't know the answer to: will they invent something to make you happy, or be upfront about it?

# Step 2
# Objectives and Strategy

**GOALS, OUTCOMES AND SELF ASSESSMENT**

# What's the goal behind your interest in investing in a venture?

**Carefully consider your objectives to engage with new ventures.**

Remember, there is a substantial initial investment of time, energy and knowledge way before money is involved, so before diving into the investment evaluation, you need to clearly define the organisational goals and expected outcomes of this process.

This will be the foundation to return to when deciding on the right approach to pursue, that will best deliver on these objectives.

# If you don’t know where to start, let’s take a look at some of the main drivers of corporate-startup collaboration

# For some organizations, the goal is to overcome their key weaknesses…

**Weaknesses of large organizations**

Slowness

Lack of Creativity

Standardisation of processes

Limited motivation

Slow-paced growth

Risk aversion

Operate in mature markets

# … by leveraging the strengths of new ventures

**Weaknesses of large organizations**

Slowness
Lack of Creativity
Standardisation of processes
Limited motivation
Slow-paced growth
Risk aversion
Operate in mature markets

**Strengths of startups**

Organisational agility
Creativity & new ideas
Challenge the status quo
Versatile environment
Highly motivated teams
Potentially rapid growth
Willingness to take risks

**Strengths of large organizations**

Access to market
Market Knowledge
Workforce
Economics of scale
Resources and Power
Capital
Viability

**Weaknesses of large organizations**

Slowness
Lack of Creativity
Standardisation of processes
Limited motivation
Slow-paced growth
Risk aversion
Operate in mature markets

**Weaknesses of startups**

Difficulties in accessing new markets
New to market
Limited workforce
Lack of resources and partners
Need of extra resources to scale
Lack of money
Lack of visibility

**Strengths of startups**

Organisational agility
Creativity & new ideas
Challenge the status quo
Versatile environment
Highly motivated teams
Potentially rapid growth
Willingness to take risks

# At the same time, the startups will be able to leverage the strengths of your organization

**Strengths of large organizations**

Access to market
Market Knowledge
Workforce
Economics of scale
Resources and Power
Capital
Viability

**Weaknesses of large organizations**

Slowness
Lack of Creativity
Standardisation of processes
Limited motivation
Slow-paced growth
Risk aversion
Operate in mature markets

**dynamic exchange of technology, talents & clients**

**Weaknesses of startups**

Difficulties in accessing new markets
New to market
Limited workforce
Lack of resources and partners
Need of extra resources to scale
Lack of money
Lack of visibility

**Strengths of startups**

Organisational agility
Creativity & new ideas
Challenge the status quo
Versatile environment
Highly motivated teams
Potentially rapid growth
Willingness to take risks

# Goals and outcomes of a potential collaboration

Defining your intent will support further decision making in this process and avoid wasting time or resources on potential collaborations that don't contribute to achieving these objectives.

# Goals and outcomes of a potential collaboration

Circle 4 statements that most apply to you. Are you investing for strategic purposes, or more for financial gains, or a healthy mix of both?

- Igniting culture via entrepreneurial mindset and agility
- Gain strategic insight by exploring new technologies and/ or business models
- Leverage external innovation to drive internal innovation
- Access entrepreneurial talent, network and energy
- Attracting new customers, remaining competitive
- Marketing, public relations, corporate image boost
- Expand into future markets via new capabilities, channels, emerging technologies
- Creatively solving business challenges with speed
- Quick financial returns on venture investments
- Building capabilities in a cost-effective way
- Explore alternative routes to market

**STRATEGIC POSITIONING** ← → **FINANCIAL RETURNS**

# Goals and outcomes of a potential collaboration

Circle 4 statements that most apply to you. Are you investing for strategic purposes, or more for financial gains, or a healthy mix of both?

## Corporate VC tend to have strategic objectives.

They often proceed with startup collaboration in order to impact the sales and profits of the corporation's own businesses. An organisation making a strategic investment seeks to identify and leverage the synergies between itself and a new venture.

In the short-term, they invest in partners that drive closer alignment and tighter relationships to the company; while in the long-term, invest more strategically.

## Traditional VC tend to prioritize financial returns.

VC groups function on seeking out above average financial returns by engaging with startups.

It is crucial to identify and define your venturing strategy up front, so that you can manage the expectations of your team and the startups and measure progress and scope creep.

STRATEGIC POSITIONING ⟷ FINANCIAL RETURNS

# Goals and outcomes of a potential collaboration

Next step: determine how closely these startups relate to your operational capabilities. Do you want to invest in ventures that are closely linked to your core and would advance your current business (**DRIVING**)? Or is a simple complementary fit enough for you to leverage at this point (**ENABLING**)?

Alternatively, if investing for financial reasons, do you only care about returns (**PASSIVE**), or you want to explore potential new businesses (**EMERGENT**)?

**CORPORATE INVESTMENT OBJECTIVE**

strategic — financial

**LINK TO OPERATION CAPABILITY** (tight — loose)

| | strategic | financial |
|---|---|---|
| tight | **Driving advances strategy of current business**<br>e.g Facebook acquisition of face.com, a facial recognition platform | **Emergent allows exploration of potential new businesses**<br>e.g Facebook acquisition of WhatsApp |
| loose | **Enabling complements strategy of current business**<br>e.g Facebook acquisition of Occulus VR, virtual reality technology | **Passive provides financial returns only**<br>*adapted from Harvard Business Review |

# Step 3
# The Pitch

**EVALUATION OF THE FOUNDERS PITCH**

# Why a pitch?

THE PITCH IS A CRUCIAL MOMENT TO KICK-OFF THE FORMAL RELATIONSHIP INTO EVALUATING A VENTURE'S POTENTIAL FOR INVESTMENT

It may be tempting to simply have an informal discussion with the founder, however, it is crucial to rather **clearly define a date and time for the pitch** and **keep it formal.**

In this way, you signal to the team that they have to come prepared, which will **set the tone for your collaboration**, should you later decide to proceed with the Rapid Investment Evaluation track.

Communicate to the team what you expect to be covered in the pitch, but give them the freedom to bring their own style.

⚠️ Use this moment to determine if the pitch was memorable or engaging and if the team managed to convey the value of their offering.

One of our clients created a formal ceremony where startup teams were called to pitch in front of an audience of employees.

# The pitch: keep it formal

# Pitch expectations

Clearly communicate to the venture and other key stakeholders, the expectations for the initial pitch.

### How long?

most funding pitches, are about 15 - 30 minutes and shouldn't really be longer than this

### Who attends?

the founding team and key innovation drivers

### Before the pitch?

inform all key attendees of the expectations and the pitching evaluation points

# Pitch Evaluation Checklist

In your pitch briefing, communicate clearly what you expect to see in their pitch.

Do encourage them to be creative with it too, but these basics should definitely be covered.

While they are pitching, observe their body language, and ask a lot of 'why' questions.

⚠️

You may be tempted to, but try not to give advice yet, mostly ask clarifying questions. For now, simply focus on building the relationship.

Board of Innovation

## The Great Pitching Checklist

### #1 Problem to Solve

- Define the situation
- General market info
- Trends: Problems and/or Opportunities to start from.
- What's the relevance of your problem?

### #2 Your solution/offering

- Define your idea/concept in one slide
- Describe everything in 3 sentences max.
- Pitch like a sales person
- What's your solution to the problem? Why is it unique?
- Visual mock-up of your concept

### #3 Value of solving the Problem

- How are you going to make (big) money?
- How many customers do you want to approach, what's your market size?
- What's your market potential? How fast are you going to move?
- Key financial figures

### #4 Credibility

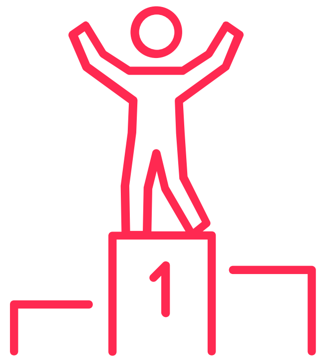
- What are the assumptions you validated? What was the outcome?
- Have you approached already different stakeholders? What did you learn?
- Why will it work?
- Why should they believe you?

### #5 Call to Action/Next Steps

- What's the roadmap you want to follow?
- What are the main assumptions you want to test with a Minimum Viable Product?
- How will the MVP look like? What do you want to build?
- Investment needed? (costs, people, resources, ...)
- First 6 month & long term vision

# Some no-no's that put us on high alert 🚨

**'We can't share anything without an NDA.'**
Don't sign an NDA  before getting into the more sensitive investment discussions. Only sign an NDA if very detailed IP-sensitive info is shared. Don't sign an NDA if you're planning to see multiple competing startups. VC's don't sign NDA's either.



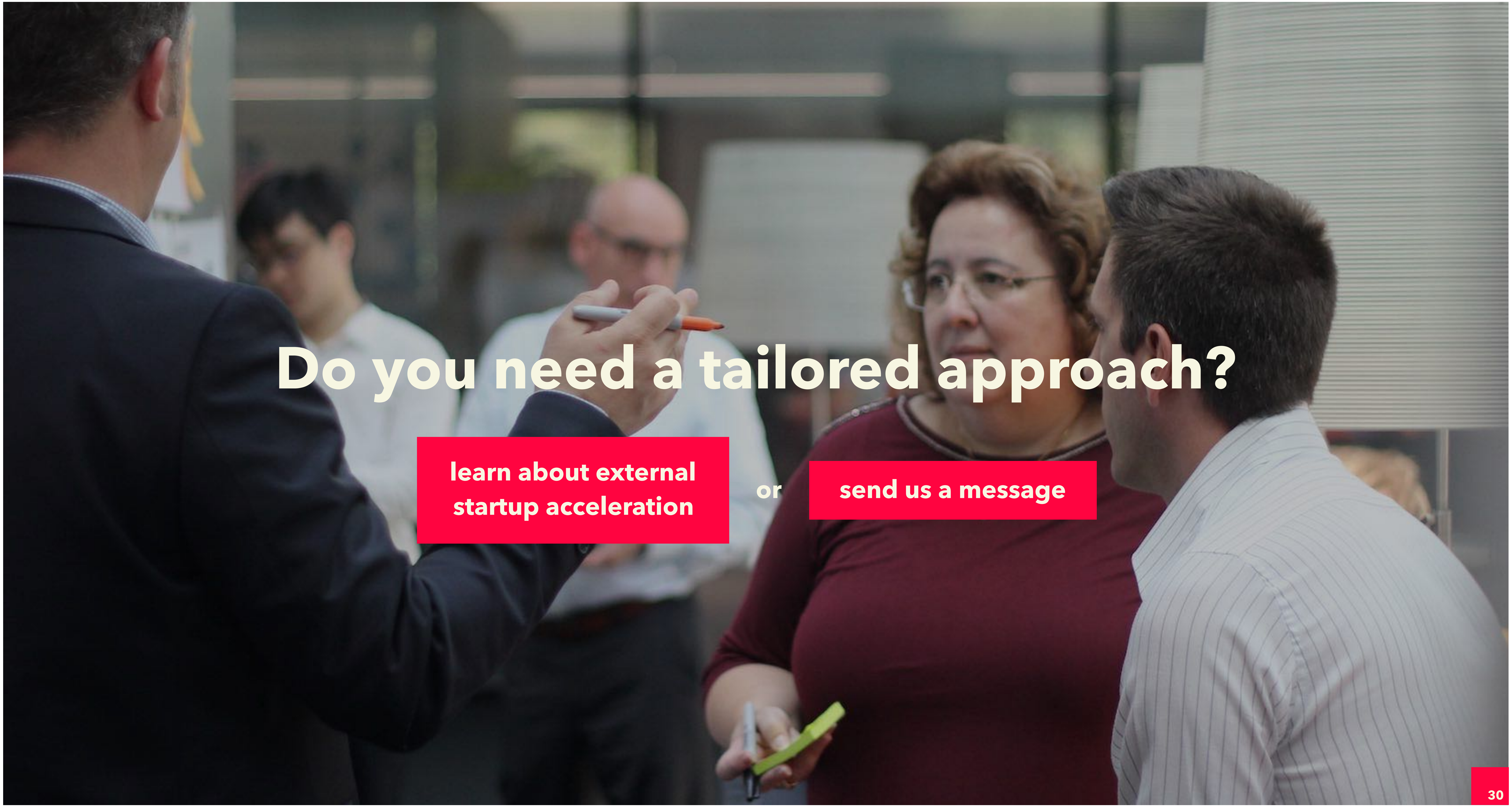

**'We have 1st mover advantage'**
This usually sounds great to investors, but is sometimes  actually a disadvantage! Then you're either too early, or your problem doesn't have a market. You're going to have to work hard to educate the market and lay the groundwork for your following competitors.
It is okay to be the 2nd, 3rd, 4th or 5th. Just make sure there's ***no dominant*** player yet.

# Some no-no's that put us on high alert 🚨

**'We will also have this and that feature'**
If they don't dare to strip down their solution to the bare essentials, there's probably not enough on offer. Hiding behind a feature-mania and impossible promises is easy.

**'We just want 1% of this huge market'**
Big red flag. You should aim to own 100% of a niche of the market, you need to find a focus. Especially in the early days, you need a clear target to aim for, instead of pursuing any direction that 'could work'.

**'We have 0 real customers. We're worth 3 million.'**
Throw water in their face at this point, they need a wake up call. Find out why they think that. Ask if they pitched for anyone else, call their references and ask what they think about that valuation.


Do you need a tailored approach?
learn about external startup acceleration
or
send us a message

# Step 4
# Information Exchange

**THE PITCH DOCUMENT IS NOT ENOUGH**

# Why information exchange?

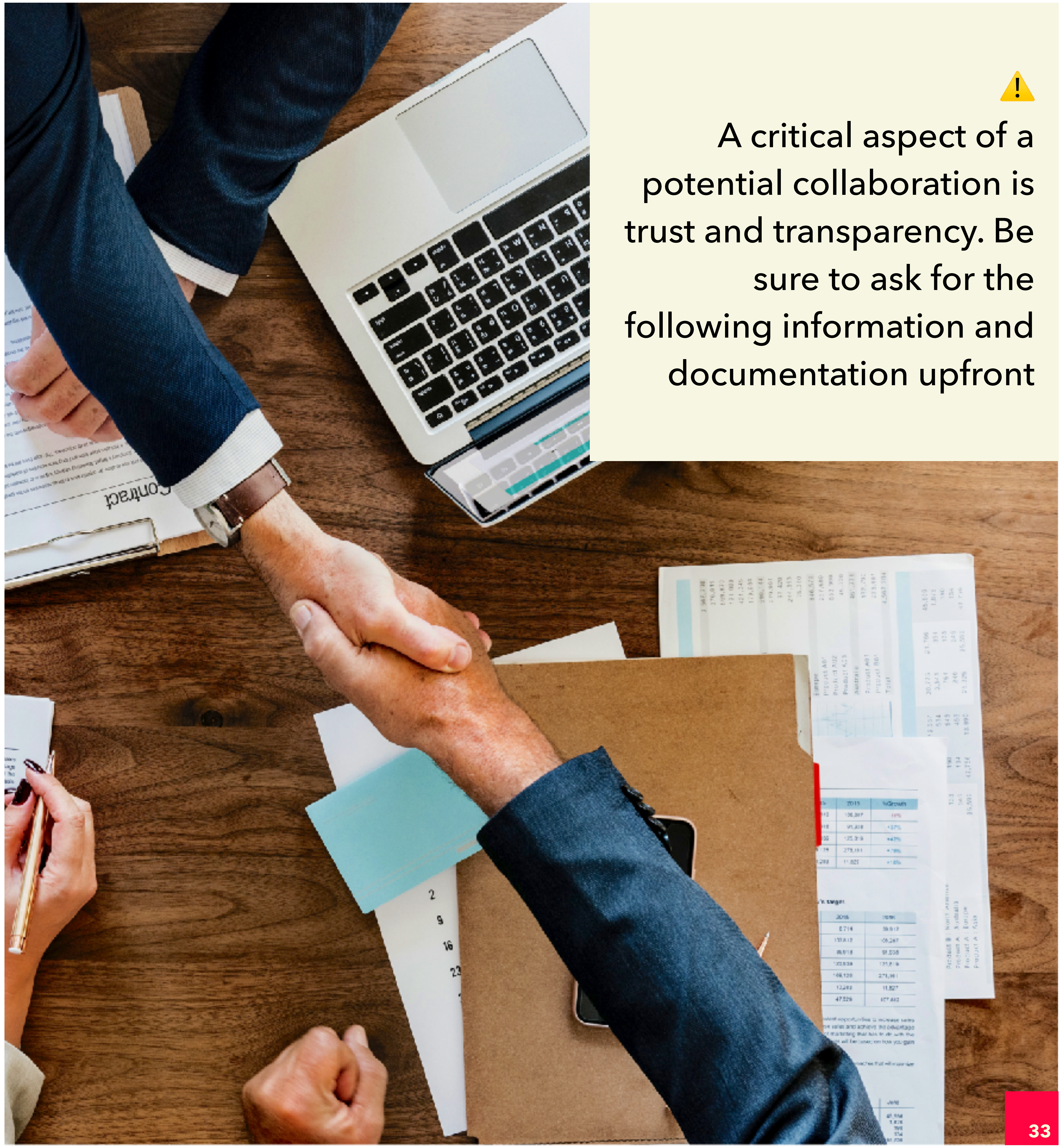
You now have seen the pitch, you've identified your venturing goals and you've decided to engage in the rapid investment evaluation process with a particular startup.

What's next? The information exchange!

⚠️
In order to start the collaboration off on the right foundation, be sure to **ask for enough information you'd need ahead of time** - as acquiring this information could often take some time.

# Information exchange

- ☐ Pitch document
- ☐ Business Model
- ☐ Team CVs and Organizational chart
- ☐ Proof of traction (customer information, sales references, letters of intent etc.)
- ☐ Current investment and capital structure
- ☐ Financial information (e.g. burn rate €/month)
- ☐ Description of all products and services
- ☐ Supplier or significant partnerships information
- ☐ Legal information



⚠️ A critical aspect of a potential collaboration is trust and transparency. Be sure to ask for the following information and documentation upfront

# Step 5
# Venture Maturity Evaluation

ARE WE BUYING A SEED OR A SEQUOIA?

# Why to assess the maturity of the venture?

**VENTURES AT DIFFERENT MATURITY LEVELS WOULD REQUIRE A DIFFERENT VALIDATION TRACK.**

Before spending substantial time and energy in the validation phase of this process, you need to define how much effort will be needed for the Rapid Investment Evaluation by assessing how mature the startup is, which in turn affects how much resources you will have to invest in the venture validation phase.

Ventures at different maturity levels would require a different validation track. **Startups** are naturally risky, and would consequently need more time spent on validation of various aspects in comparison to **Scaleups** for instance, that have found a market-fit and are seeking to grow.

“A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty.”

**Eric Ries**

# Startup maturity level

| | Conceptual: Early stage pre-startup | Launch: Early stage/ Startup Infancy | Startup: Increased credibility | Venture growth: sustainability & scalability | Mature venture/SME/ Later stage |
|---|---|---|---|---|---|
| **Maturity** | Concept/idea | Idea launched | Operational efficiency, potential to scale | Significant traction, scalability, operational efficiency | Established market position, scalable growth |
| **Problem/ solution fit** | in progress | being optimized | validated | validated | validated |
| **Market fit** | Not yet | in progress | x | x | x |
| **Business Model** | conceptual | in progress | x (validated and repeatable) | x (validated and scalable) | x (optimization) |
| **Team** | < 5 | 2+ | Optimized team | Growing team | Growing team |
| **Return** | | Typical time: 5+ years<br>Typical size: 10x | | Typical time: 3+ years<br>Typical size: 2-3x | |
| **Investment size** | • | •• | ••• | •••• | ••••• |
| **Investment risk** | ••••• | •••• | ••• | ••• | •• |
| **Customers** | <20 customers<br>Customer segment unclear | 20+ customers<br>Focused target customer segment | 50+ customers<br>Fast growth | 100+ customers<br>with info on retention rates | 250+ customers |


Conceptual: Early stage pre-startup

# Conceptual: Early stage pre-startup

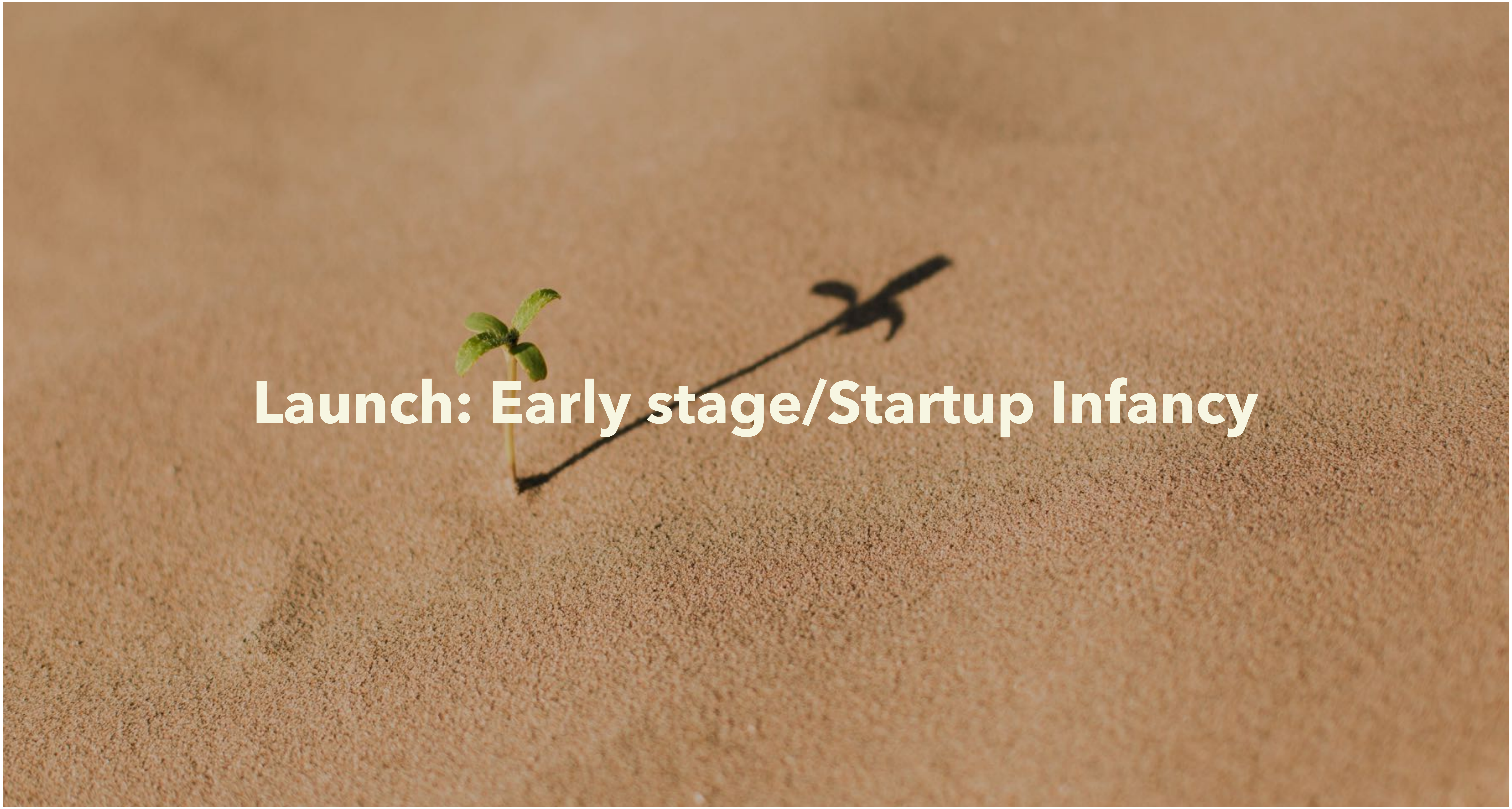
| Conceptual: Early stage pre-startup | Launch: Early stage/ Startup Infancy | Startup: Increased credibility | Venture growth: sustainability & scalability | Mature venture/ SME/ Later stage |
|---|---|---|---|---|

**Funding**
- Bootstrapping
- Lean operational costs
- Angel
- Pre-seed
- Crowd sourcing

**Validation Needs**
- Problem Fit
- Solution Fit
- Business model validation

**USE CAPITAL FOR**
- market research
- MVP development

| | |
|---|---|
| **Maturity** | Concept/idea |
| **Problem/ solution fit** | in progress |
| **Market fit** | |
| **Business Model** | |
| **Team** | < 5 |
| **Return** | |
| **Investment size** | • |
| **Investment risk** | ••••• |
| **Customers** | <20 customers<br>Customer segment unclear |


Launch: Early stage/Startup Infancy

# Launch: Early stage/Startup Infancy

| Conceptual: Early stage pre-startup | **Launch: Early stage/ Startup Infancy** | Startup: Increased credibility | Venture growth: sustainability & scalability | Mature venture/ SME/ Later stage |
|---|---|---|---|---|

**Funding**
- Bootstrapping
- Leans for operational costs
- Angel
- Peer-to-Peer lending
- Seed
- Equity crowdfunding

**Validation Needs**
- Problem Fit
- Solution Fit
- Business model validation

**USE CAPITAL FOR**
- Constructing a working prototype
- Additional validation and legalities

| | |
|---|---|
| **Maturity** | Idea launched |
| **Problem/ solution fit** | being optimised |
| **Market fit** | in progress |
| **Business Model** | in progress |
| **Team** | 2+ |
| **Return** | Typical time: 5+ years<br>Typical size: 10x |
| **Investment size** | •• |
| **Investment risk** | •••• |
| **Customers** | 20+ customers<br>Focused target customer segment |

# Startup: Increased credibility

# Startup: Increased credibility

| Conceptual: Early stage pre-startup | Launch: Early stage/ Startup Infancy | Startup: Increased credibility | Venture growth: sustainability & scalability | Mature venture/ SME/ Later stage |
|---|---|---|---|---|

**Funding**

- Series A/B funding
- Bank loans/ credit
- Strategic alliances

**Validation Needs**

- Solution Fit
- Business model improvements
- Diversifying offers

**USE CAPITAL FOR**

- Scaling and improving operations
- Cash flow

| | |
|---|---|
| **Maturity** | Operational efficiency, potential to scale |
| **Problem/ solution fit** | validated |
| **Market fit** | x |
| **Business Model** | x (validated and repeatable) |
| **Team** | Optimized team |
| **Return** | |
| **Investment size** | ••• |
| **Investment risk** | ••• |
| **Customers** | 50+ customers<br>Fast growth |


Venture growth: sustainability & scalability

# Venture growth: sustainability & scalability

| Conceptual: Early stage pre-startup | Launch: Early stage/ Startup Infancy | Startup: Increased credibility | **Venture growth: sustainability & scalability** | Mature venture/ SME/ Later stage |
|---|---|---|---|---|

**Funding**

- Series B/C
- Venture Capital
- Loans
- CVC
- Strategic alliances

**Validation Needs**

- Validate additional offerings
- Validate pricing structures within the business model

| | |
|---|---|
| **Maturity** | Significant traction, scalability, operational efficiency |
| **Problem/ solution fit** | validated |
| **Market fit** | x |
| **Business Model** | x (validated and scalable) |
| **Team** | Growing team |
| **Return** | Typical time: 3+ years<br>Typical size: 2-3x |
| **Investment size** | •••• |
| **Investment risk** | ••• |
| **Customers** | 100+ customers<br>with info on retention rates |


Mature venture/SME/Later stage

# Mature venture/SME/Later stage

| Conceptual: Early stage pre-startup | Launch: Early stage/ Startup Infancy | Startup: Increased credibility | Venture growth: sustainability & scalability | Mature venture/SME/ Later stage |
|---|---|---|---|---|

**Funding**

- Series  C and further rounds
- Loans
- Venture Capital
- CVC

**Validation Needs**

- Validate additional offerings
- Validate alternative pricing structures within the business model

| | |
|---|---|
| **Maturity** | Established market position, scalable growth |
| **Problem/ solution fit** | validated |
| **Market fit** | x |
| **Business Model** | x (optimization) |
| **Team** | Growing team |
| **Return** | |
| **Investment size** | ••••• |
| **Investment risk** | •• |
| **Customers** | 250+ customers |

# Step 6
# Impact vs. Activity Metrics

MAKE SURE THE RIGHT METRICS ARE IN PLACE

# A venture’s first focus should be *learning*. Only after a while should it be *earning*.

If you start focusing on earning, you start by building things right. If you focus on learning, you start by wondering what is the right thing to build. That is the mindset we’re looking for.

learning

earning

action → impact

ACTIVITY METRICS

IMPACT METRICS

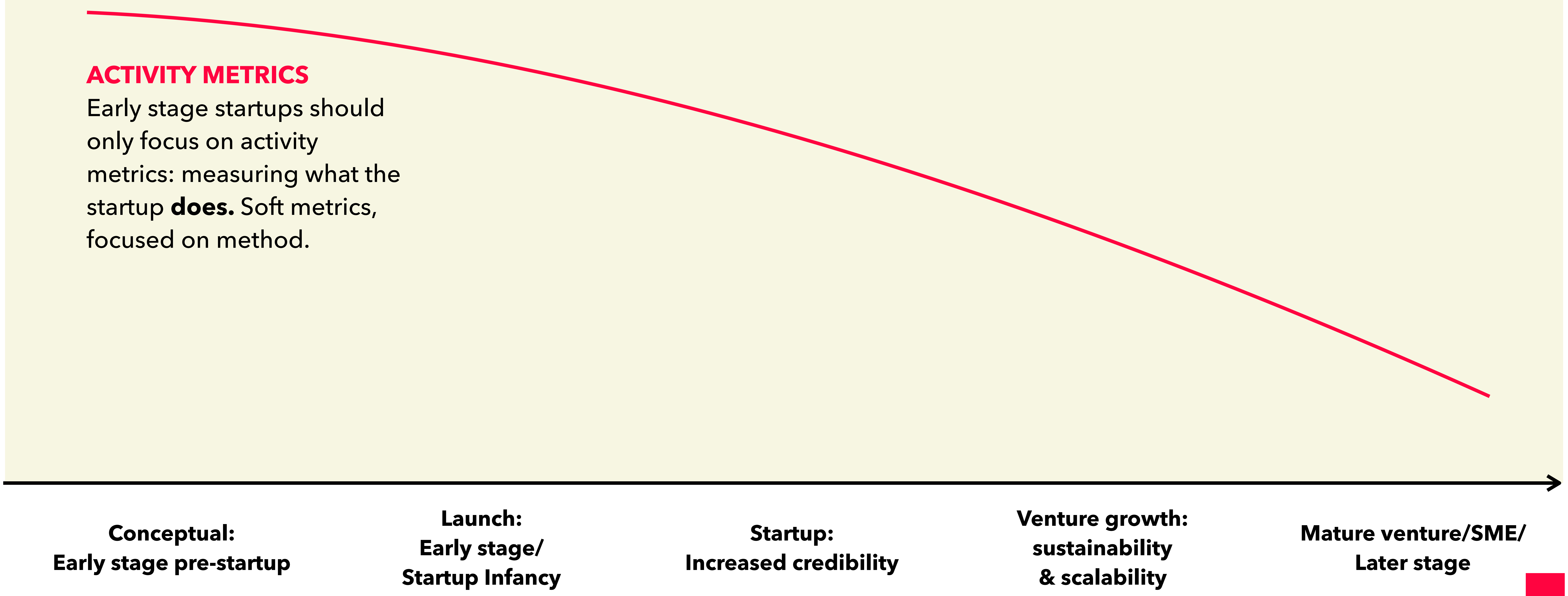
“The only way to win is to learn faster than anyone else.”

Eric Ries

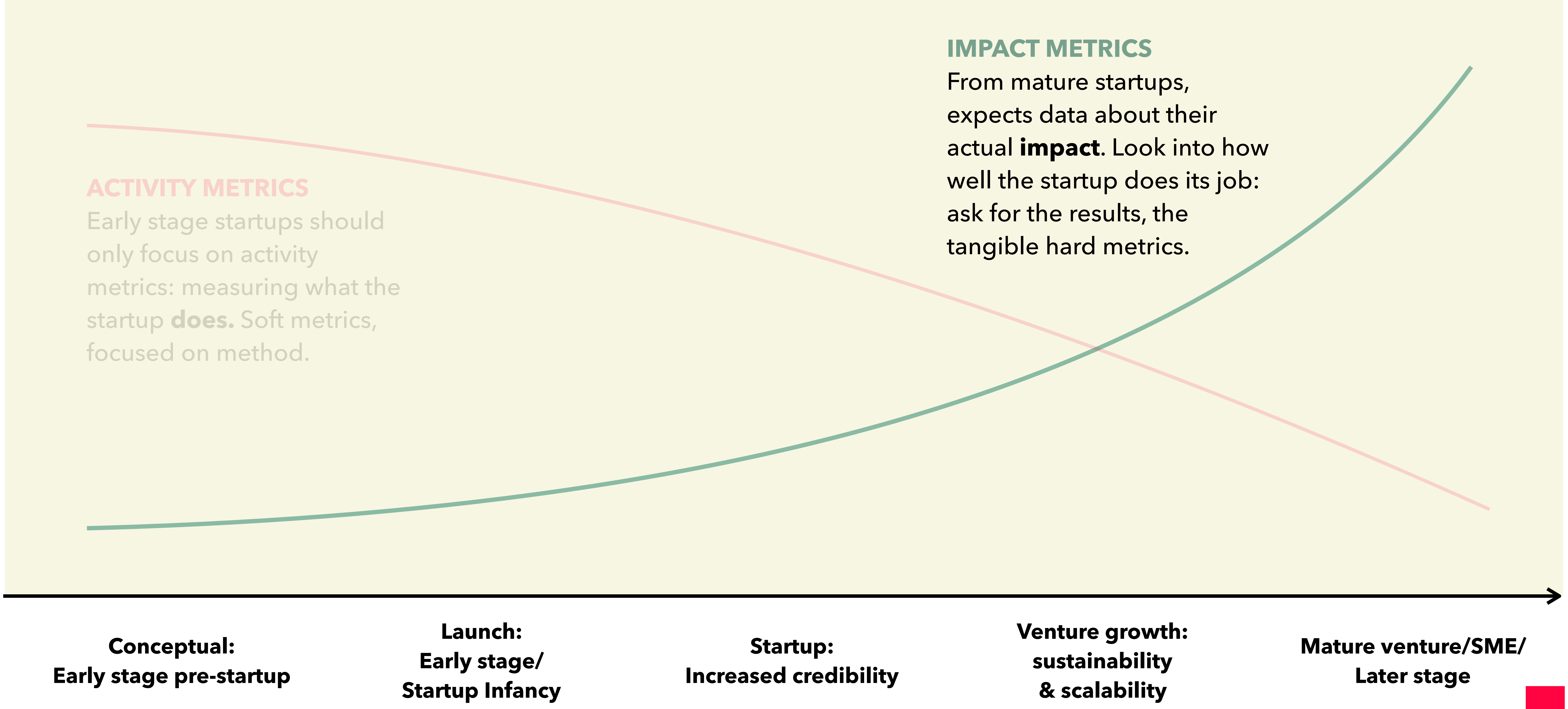
# The right metrics at the right time

**ACTIVITY METRICS**

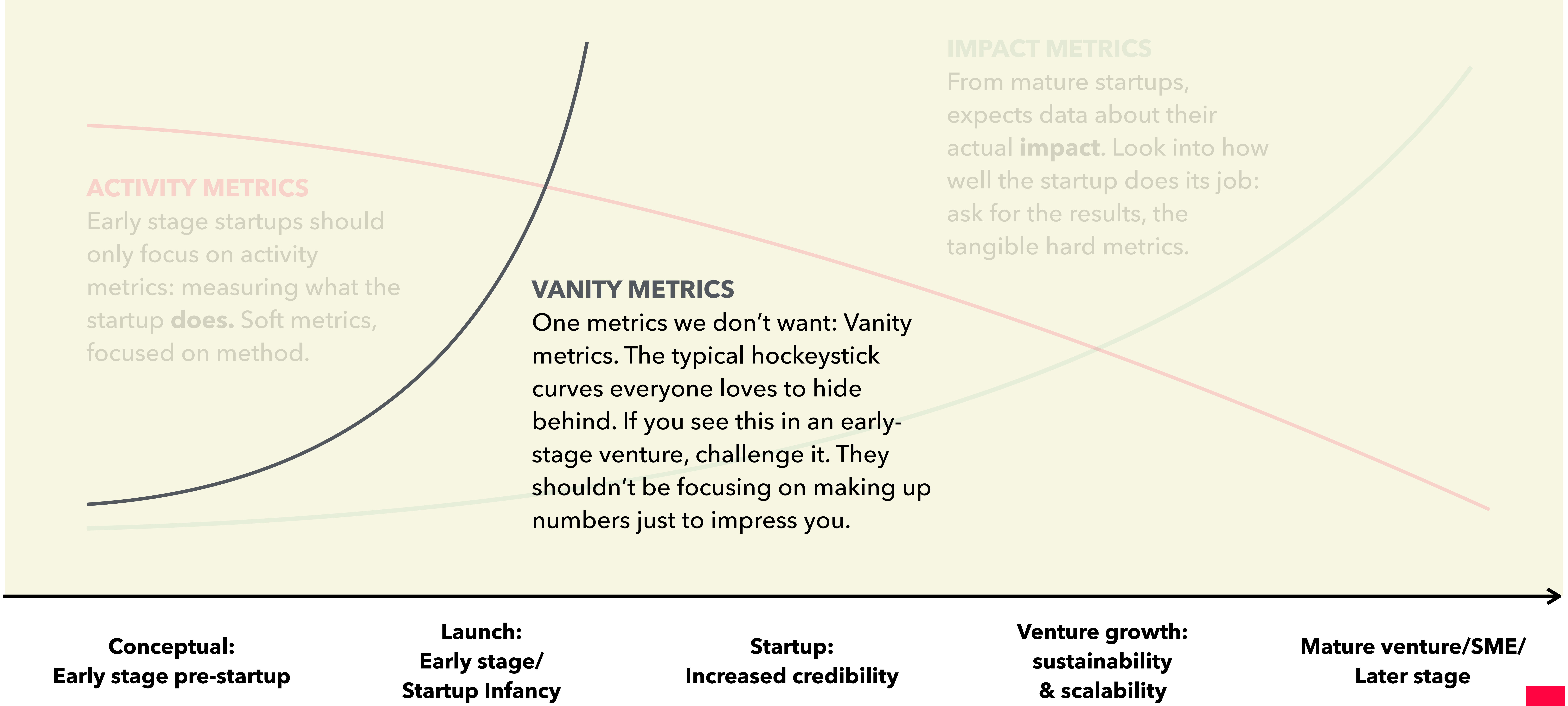
Early stage startups should only focus on activity metrics: measuring what the startup **does.** Soft metrics, focused on method.



# The right metrics at the right time



# The right metrics at the right time



# Metrics early stage/pre-startup

## ACTIVITY METRICS

- # of customer interviews & conversations
- # of customer problems identified
- 1 clear problem statement selected
- # of jobs-to-be-done identified
- # of how might we statements identified
- # of experiments
- # of low-fidelity prototypes developed
- # of insights gathered
- % of time spent on non-value adding activities (logo, branding, solution design, features, ....)
- # of ideas generated, # of ideas killed, % of ideas selected

## IMPACT METRICS

- # of leap-of-faith assumptions identified
- # of experiments designed
- # of experiments run
- Experiment results in itself
- Cohort analysis
- Cost-per-learning
- Time-cost-per-learning
- Learning velocity

**Focus on problem exploration, not solution fit**

**Conceptual: Early stage pre-startup**

**Launch: Early stage/ Startup Infancy**

**Startup: Increased credibility**

**Venture growth: sustainability & scalability**

**Mature venture/SME/ Later stage**

# Metrics early stage/startup infancy

**ACTIVITY METRICS**

- # of concepts in validation pipeline
- # of concepts moving stages
- Average amount spent per stage
- Average time spent per stage
- # of low fidelity MVPs made
- Burn rate
- Clear summarisation of Value Proposition
- Validation of blocks on right side of the business model canvas

**IMPACT METRICS**

- # of leap-of-faith assumptions identified
- # of experiments designed
- # of experiments run
- Experiment results in itself
- Pirate metrics (AARRR)
- Cohort analysis
- Cost-per-learning
- Time-per-learning
- Learning velocity
- Validation velocity
- Assumption-to-knowledge ratio
- Revenue per customer
- Customer Lifetime Value
- Customer Acquisition Cost
- Conversion Rate

**Focus on solution fit**

**Conceptual:**
**Early stage pre-startup**

**Launch:**
**Early stage/**
**Startup Infancy**

**Startup:**
**Increased credibility**

**Venture growth:**
**sustainability**
**& scalability**

**Mature venture/SME/**
**Later stage**

# Metrics startup: increase credibility and up

**ACTIVITY METRICS**

- # of recurring customers
- # of patent filings
- Validation of left side of the canvas

**IMPACT METRICS**

- Customer satisfaction
- NPS (+ context of it)
- # of improvements/pivots
- PR value
- Social media coverage
- Revenue
- Increase in NPV

**Focus on market fit**

**Conceptual:**
**Early stage pre-startup**

**Launch:**
**Early stage/**
**Startup Infancy**

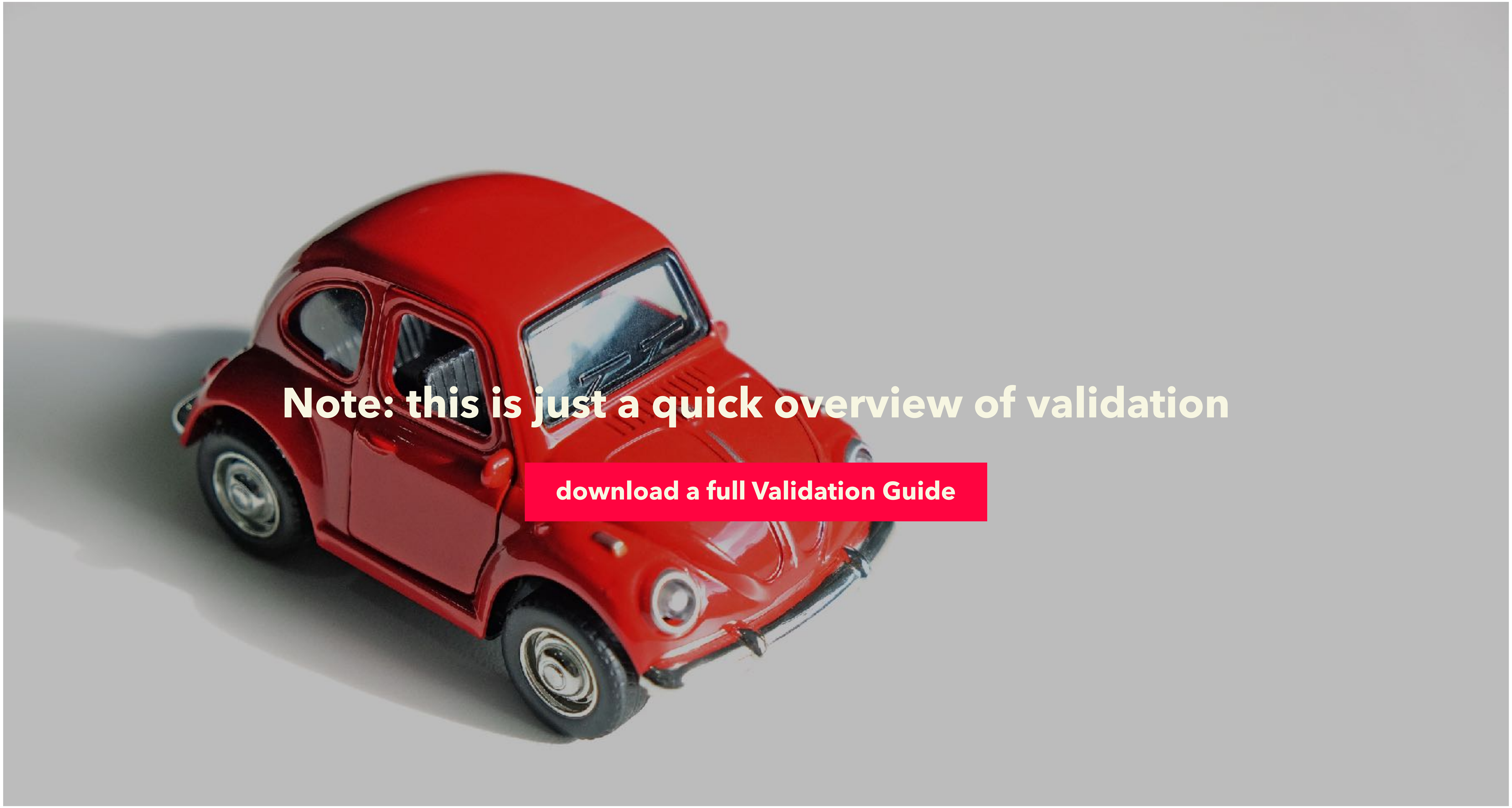
**Startup:**
**Increased credibility**

**Venture growth:**
**sustainability**
**& scalability**

**Mature venture/SME/**
**Later stage**

# Step 7
# Venture Validation

**HAVE THE ASSUMPTIONS BEEN VALIDATED?**


Note: this is just a quick overview of validation
download a full Validation Guide

# Why validation?

**5 ASPECTS OF THE VENTURE NEED TO BE VALIDATED AHEAD OF MAKING A DECISION WHETHER OR NOT TO INVEST**

The amount of time that you'll spend in this phase depends on the venture maturity.

Typically, for an early stage startup, you would spend a substantial amount of time and resources validating whether the **problem** selected is really worth solving.

Once this has been validated, your efforts can be focused on determining if the ventures intended **solution solves the problem in an effective and in a scalable way**.

# The 5 investment criteria to validate the venture

**Problem Validation**
Problem size, timing and opportunity

**Solution Validation**
Is the venture's offering differentiation strong enough?

**Business Model Validation**
Is the Business Model viable and scalable?

**Strategic Fit**
Does the Venture comply with the organisation's strategy?

**Team**
Team's mindset, composition, and ability to execute

# Problem Validation

## Market Factors

- Problem size & Desirability
- Timing
- Opportunity

⚠️

**If customers don't think this is a major problem, your solution won't be appealing.**

“We must learn what customers really want, not what they say they want or what we think they should want.”

Eric Ries

# Solution Validation

**Is differentiation strong enough?**

Does the offering solve a problem for enough people? Is the solution sufficiently differentiated?

⚠️
**The problem might exist, there is a market need, but does your product actually solve it in a meaningful way?**

# Business Model Validation

- Viability
- Scalability

Validating various aspects of the proposed business model in order to determine viability and potential for scale

"A startup is a temporary organization used to search for a repeatable and scalable business model."

**Steve Blank**

# Strategic Fit

- Does you investment strategy link to your innovation strategy?
- Where does this venture fit in?

Refer back to the investment strategy identified in phase 2: is this opportunity a fit?

# Team

Does the company have the right people, with the relevant experience and talent and drive to make the venture successful?

⚠️

**Make sure the startup's team is diverse, composite. Teams with low internal diversity may overlook crucial elements, lack skills and assets.**

# 4 core roles in startup teams

Think about the team of the venture you're investing in:
does it have these 4 mindsets covered?

**HIPSTER**

"I Have Acces To Relevant Networks"

**HUSTLER**

"I Get Results By Convincing People"

**VISIONARY**

"I Have The Power To Inspire & Motivate"

**HACKER**

"I See Solutions Not Problems"

"A startup is not just about the idea: it's about testing and then implementing the idea.
A founding team without these skills is likely dead on arrival."

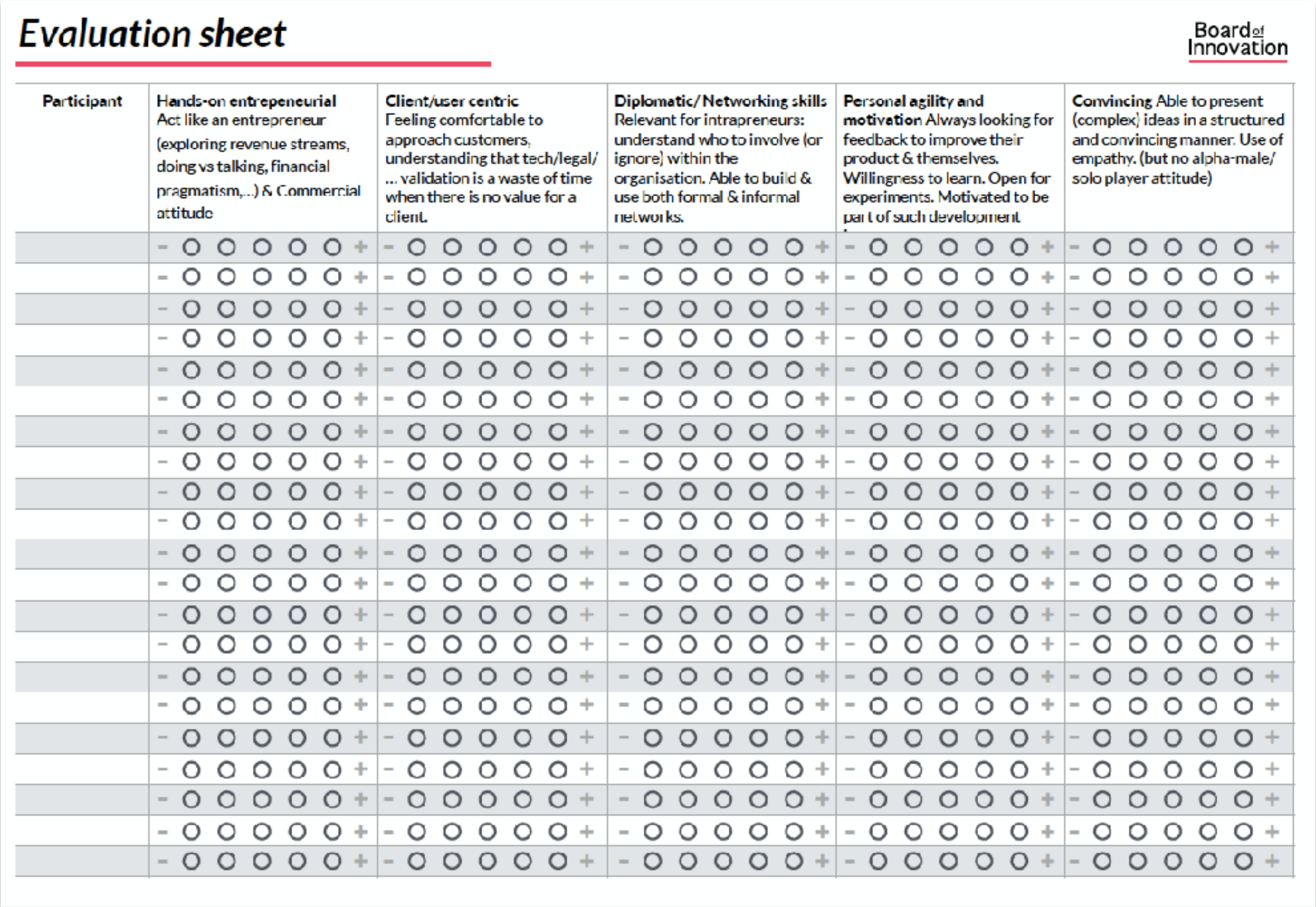
Steve Blank

# Team Evaluation sheet

**Is there a complete team with relevant experiences for the identified market opportunity?**

Are the required sales and marketing skills currently within the organization?

Are they complimentary profiles ?



## Evaluation sheet

Board of Innovation

| Participant | **Hands-on entrepeneurial** Act like an entrepreneur (exploring revenue streams, doing vs talking, financial pragmatism,...) & Commercial attitude | **Client/user centric** Feeling comfortable to approach customers, understanding that tech/legal/ ... validation is a waste of time when there is no value for a client. | **Diplomatic/Networking skills** Relevant for intrapreneurs: understand who to involve (or ignore) within the organisation. Able to build & use both formal & informal networks. | **Personal agility and motivation** Always looking for feedback to improve their product & themselves. Willingness to learn. Open for experiments. Motivated to be part of such development | **Convincing** Able to present (complex) ideas in a structured and convincing manner. Use of empathy. (but no alpha-male/ solo player attitude) |
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# Execution Capabilities

**Other talent considerations:**

- ☐ Character and Personality of the entrepreneur(s)
- ☐ Leadership capabilities
- ☐ Experience of the entrepreneur(s)
- ☐ Track record
- ☐ Technical qualification(s)
- ☐ Business qualification (s)
- ☐ Capable of sustained intense effort
- ☐ Market/industry knowledge
- ☐ Able to evaluate and react well to risk
- ☐ Articulate in discussing venture
- ☐ Reliable references
- ☐ Compatible personalities
- ☐ Go to Market capabilities

**Entrepreneurs should signal their readiness and commitment to the intended venture from the very beginning of the process in the most credible way**

“Sweat equity is the most valuable equity there is. Know your business and industry better than anyone else in the world. Love what you do or don't do it. ”

**Mark Cuban**

# Step 8
# Venture Valuation

SOME TOOLS TO CALCULATE THE FINANCIAL VALUE OF A VENTURE

# Venture Valuation

When it's time to have the Valuation conversation, things could get less than amicable. There is no 'single right way' to do this and we would definitely recommend bringing in an expert.

However, since these conversations sometimes occur quite spontaneously, we have put together a few pointer to help you keep the discussion in the relationship building realm vs. delving into financials too early.

# 4 common methods of Venture Valuation

While valuing mature companies is fairly straightforward using market capitalisation and sales multiples, valuing startups is often more ambiguous and involves not only money, but also energy spent.
Popular valuation methods for startups include:

**The Berkus Method**
for projecting the potential of a company to reach over $20 million in revenues by the fifth year of business

**The Risk Factor Summation Method**
consider important exogenous factors and should be used alongside other methods

**The Scorecard Method**
comparison with xangel-funded ventures & adjusts the average valuation of recently funded companies of similar maturity level in the region to establish a pre-money valuation.

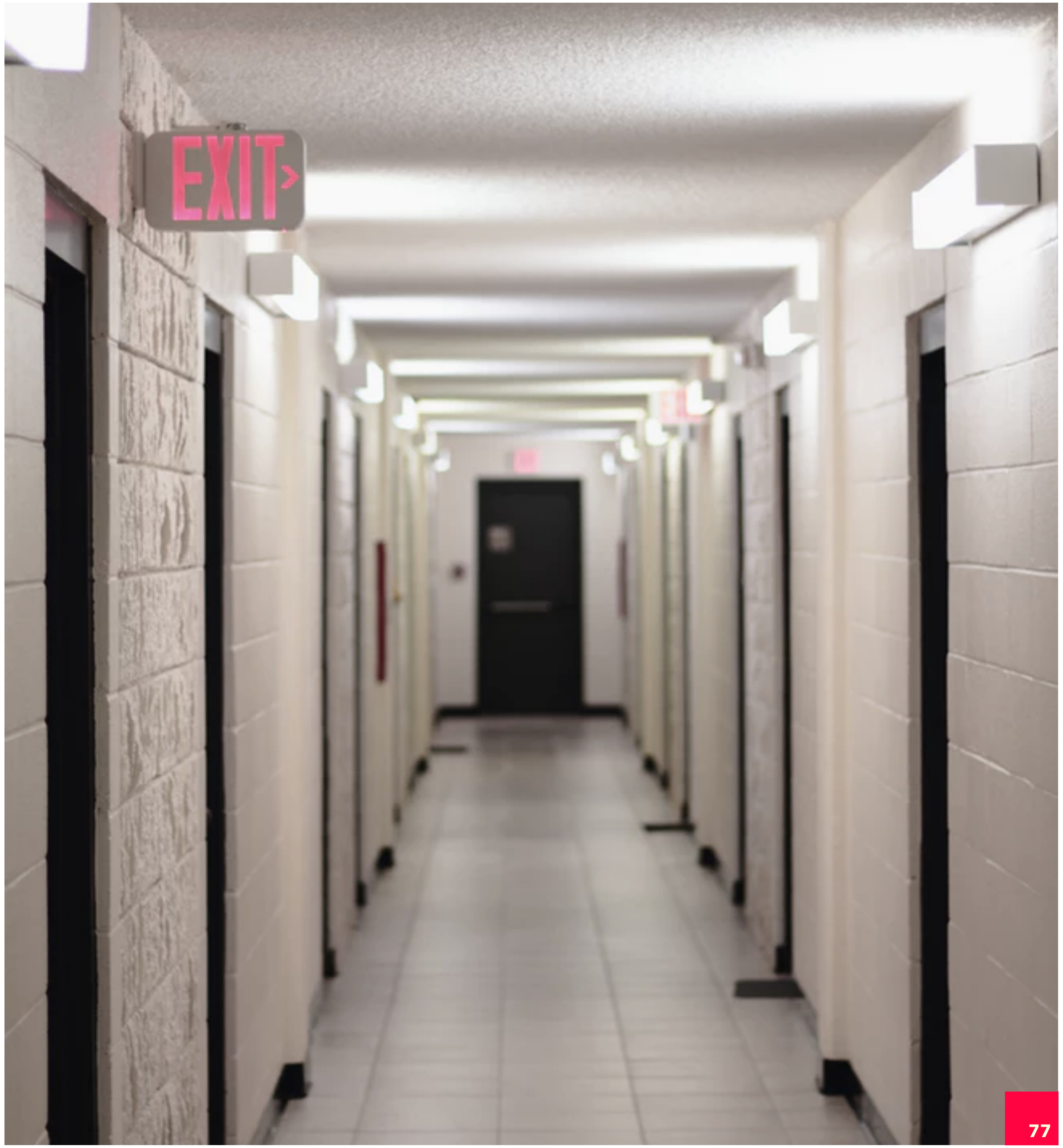
**The Cayanne Consulting Calculator**
A model that provides a range after answering several questions. It is intended more for educational purposes than for performing serious valuations.

# Exit strategy discussions

**Match to your investment goals.**

When assessing a financing partner,  clarifying growth trajectory and exit potential, is key.

Depending on the Investment Strategy identified, you can explore various exit opportunities and outcomes from your investment, or focus on prioritising high financial returns.



# Step 9
# Investment Criteria

**A FINAL CHECKLIST: IS EVERYTHING IN PLACE?**

# Investment criteria

After validating the 5 key aspects, use these investment criteria as a litmus test to make the decision whether or not the venture in question has the potential to be a fit within your organisational goals.

Use the checklist to gauge whether or not you have covered the crucial who, how and what questions.

# 5 criteria for investment

**Market**
- problem size
- desirability
- timing
- opportunity

**Offering**
Is differentiation strong enough?

**Business model**
- Viability
- Scalability

**Team**
- Team’s mindset
- Execution capability: feasibility
- Composition

**Strategy fit**
Does you investment strategy link to your innovation strategy?

# Final Checklist

## Who

- ☐ Competent team with relevant expertise and executional capabilities
- ☐ Trusted founder/leader
- ☐ Candid and honest with investment team
- ☐ Investment Readiness level

## How

- ☐ Clear target customer
- ☐ Product solves a problem for a validated target customer
- ☐ Clarified and validated market demand
- ☐ Clarified and validated business model
- ☐ Functional prototype
- ☐ Demonstrated earning potential, proven traction or measurable interest (some customers, early revenue)
- ☐ Sustainable competitive advantage identified
- ☐ Potential market share identified
- ☐ Plan for timing

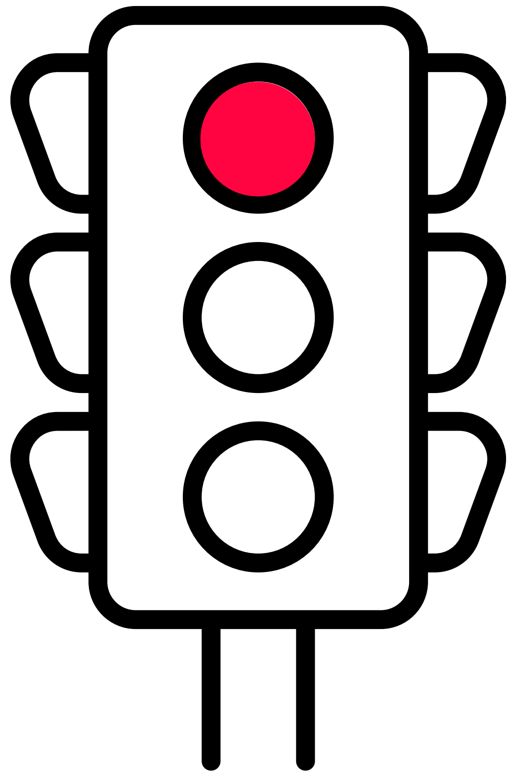
## What

- ☐ List of top customers
- ☐ List of strategic relationships
- ☐ List of suppliers and agreements
- ☐ Analysis of competitive landscape per market segment
- ☐ Clear fundamentals and operating history of the startup (including planned vs actual results)
- ☐ Capital and distribution-efficient
- ☐ Established operating metrics to be monitored
- ☐ Clarified current value and existing equity structure
- ☐ Startup has declared Company debt
- ☐ Clarified value chain
- ☐ Identified key risks
- ☐ List of patents, copyrights, licenses or trademarks
- ☐ Demonstrated healthy return on invested capital so far
- ☐ Defined an exit strategy

# Step 10
# Final decision

TO GO OR NOT TO GO?

# Investing in that startup: go or no-go?



**No-go**

- Communication of the decision to the startup's team

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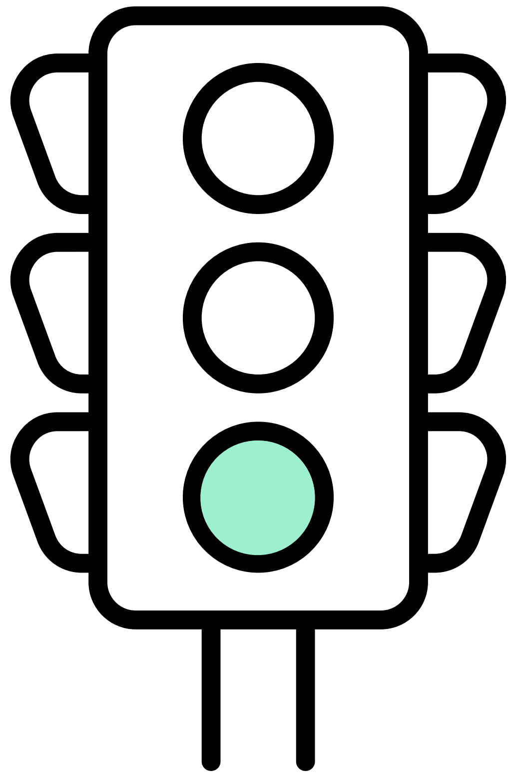


**Go!**

- Thorough **due diligence** initiation.
- Identifying the **right parties/specialists to involve** regarding high risk factors such as legal and technology aspects.
- Establishing a **timeline** and collaboration roadmap.

# Glossary of terms

**Acqui-hire**: An organisation's acquisition of a venture for the primary purpose of hiring its employees, rather than for the value of the company itself.

**Acquisition**: The process of a company buying the controlling interest of another company.

**Angel Financing**: Seed or pre-seed capital raised from independent angel investors.

**Angel investor**: An individual who provides a relatively small amount of capital to a startup (usually in its infancy) for a stake in the company.

**Bootstrapping:** Bootstrapping refers to the funding process whereby entrepreneur's operates and grows a company with little capital without outside investments. They generate capital from their personal resources or the company's own operating revenue.

**Bridge Loan**: A short-term loan to bridge the gap between larger financing rounds.

**Burn Rate**: The rate at which a company used their net cash over a certain period of time, usually measured for a month.

**Buyout**: Purchasing a company or a controlling interest of a company's shares, product line or business.

**Corporate Venture**: When an organisation invests in another company, usually at an early stage for strategic or financial reasons.

**Dilution**: Issuing more shares of a company dilutes the value of holdings of existing shareholders. A reduction in the percentage ownership of a given shareholder in a company caused by the issuance of new shares.

**Due Diligence** : The investigation process undertaken by potential investors in order to assess and verify the potential of an investment opportunity in a company.

**Issued Shares**: The amount of common shares that a company has issued/ sold.

**Peer to Peer Lending**: Online funding where which individuals lend money to other individuals or small businesses.

**Pre-money Valuation**: The company's value before a funding/ investment round.

**Preferred Stock**: Shares where the holders can exercise more rights, preferences, and privileges.

**Seed Capital**: Seed Capital is the first official round of financing. Investors buy equity-based interest in a new or existing company. This seed capital is usually quite small because the venture is still in the idea or conceptual stage and will typically use funds for proof of concept and/or to build out a prototype.

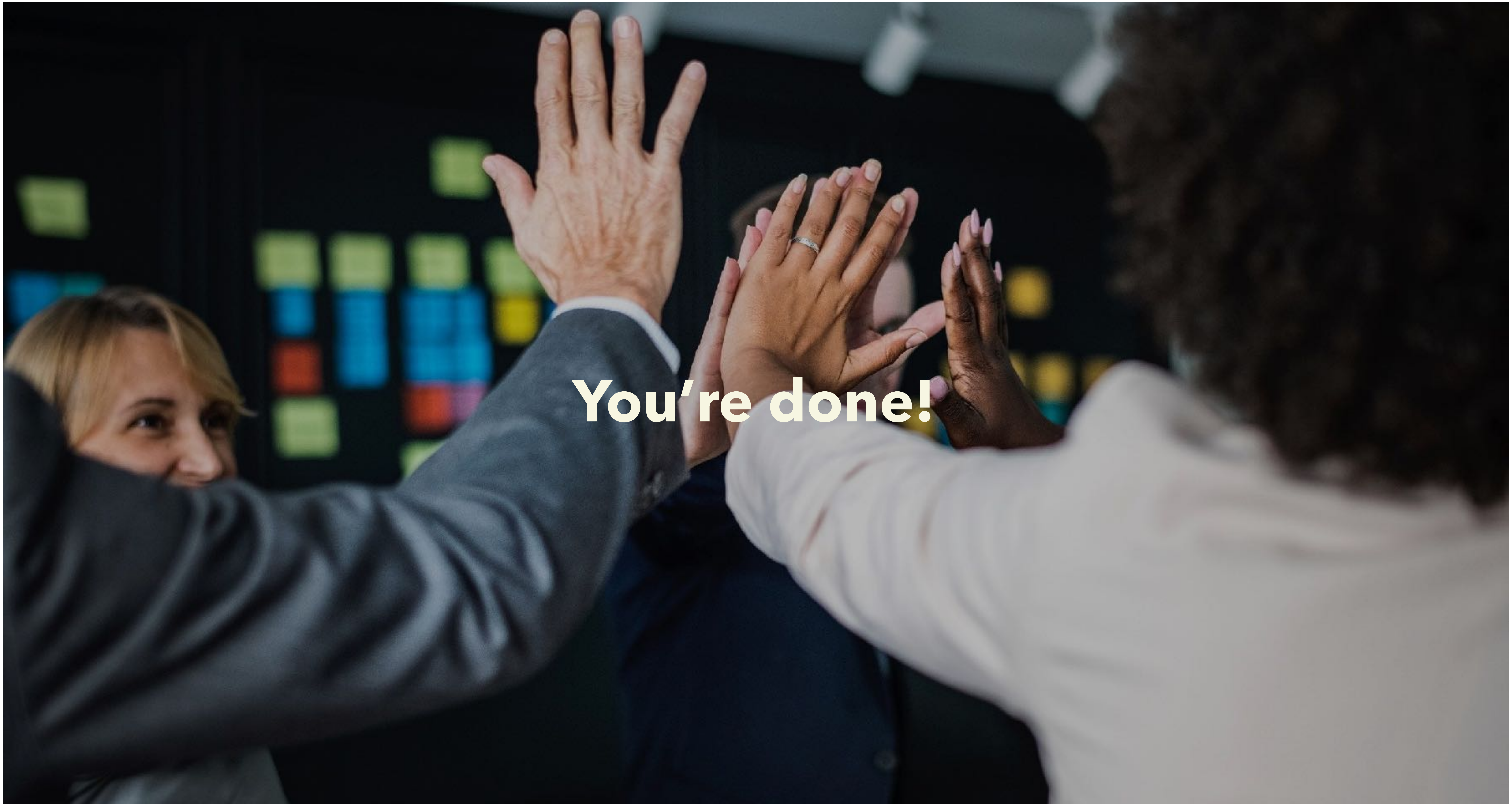
**Series:** Refers to the particular round of funding a company is raising. For example, the venture is raising their Series A/B/C round.

**Valuation:** The process by which a company's worth or value is determined from different variables including capital structure, management team, and revenue or potential revenue, among other things.

**Vanity Metrics**: Refers to the statistics often used to show the growth of a startup that doesn't really mean anything, or is not tangible/actionable. E.g the Twitter opinions of a startup.

# Useful Resources

- Validation guide and Experiment Picker covers how to choose the right experiments to validate elements of a business.
- Questions  to ask during a founders pitch.
- Competitor mapping analysis tool to compare companies
- 10 questions we ask founders
- Crunchbase and Mosaic: Discover innovative companies and the people behind them.
- Inspiration from the top 100 venture capitalists.
- How to Pitch to a VC covers what Venture Capitalists usually look for in a pitch for investment
- Overview on Corporate Venture Capital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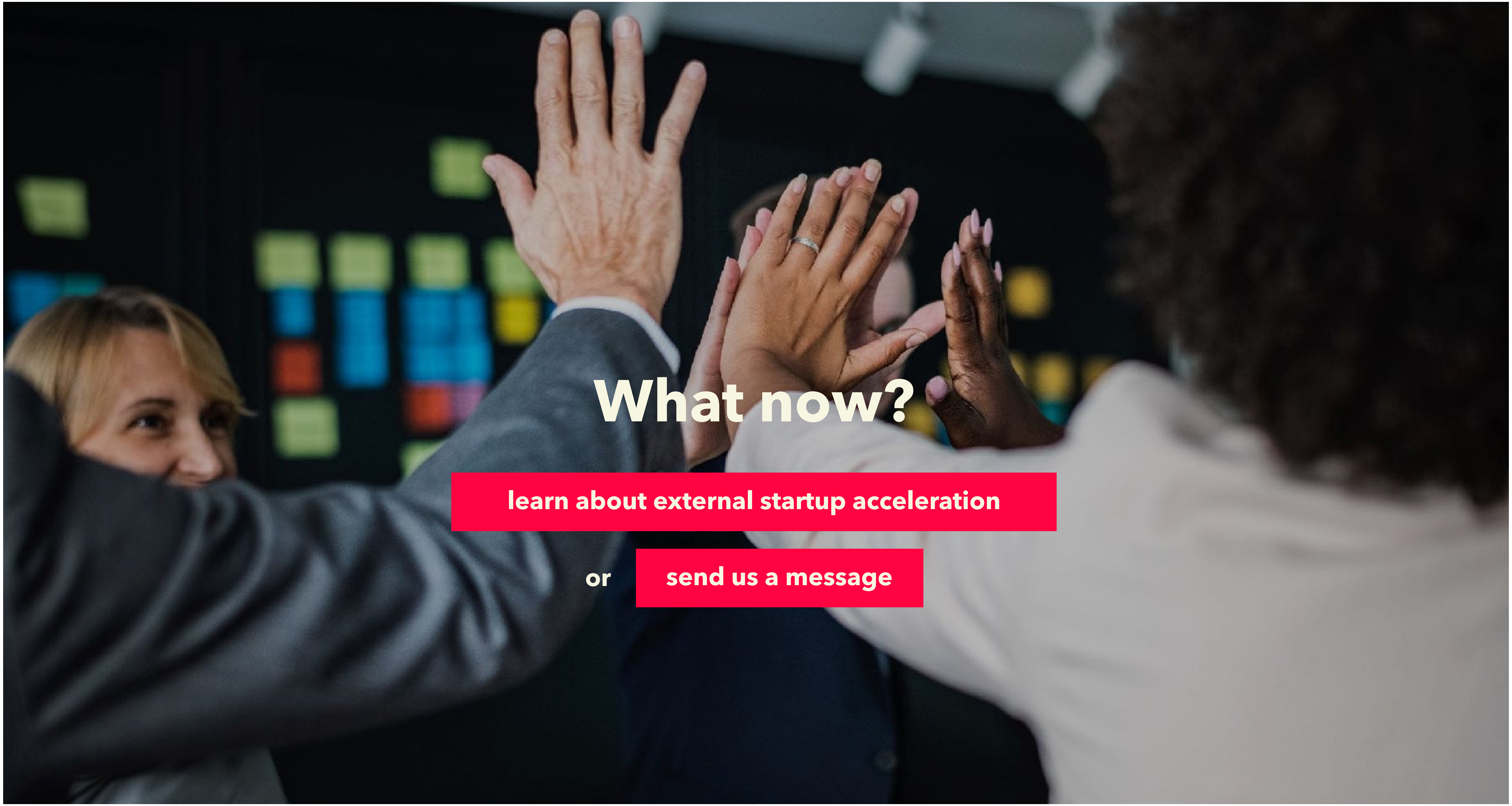
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