

# Nine Out of Ten Companies Fail.

## Why Fail When You Can Succeed?

# Yonatan Stern

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# CardScan®



# Yonatan Stern

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# SmartUp Academy

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A residency program to teach the profession of building successful companies.



Why don't you write a book?

# SmartUp Companies

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# Why do 9 out of 10 Venture Backed Companies Fail?

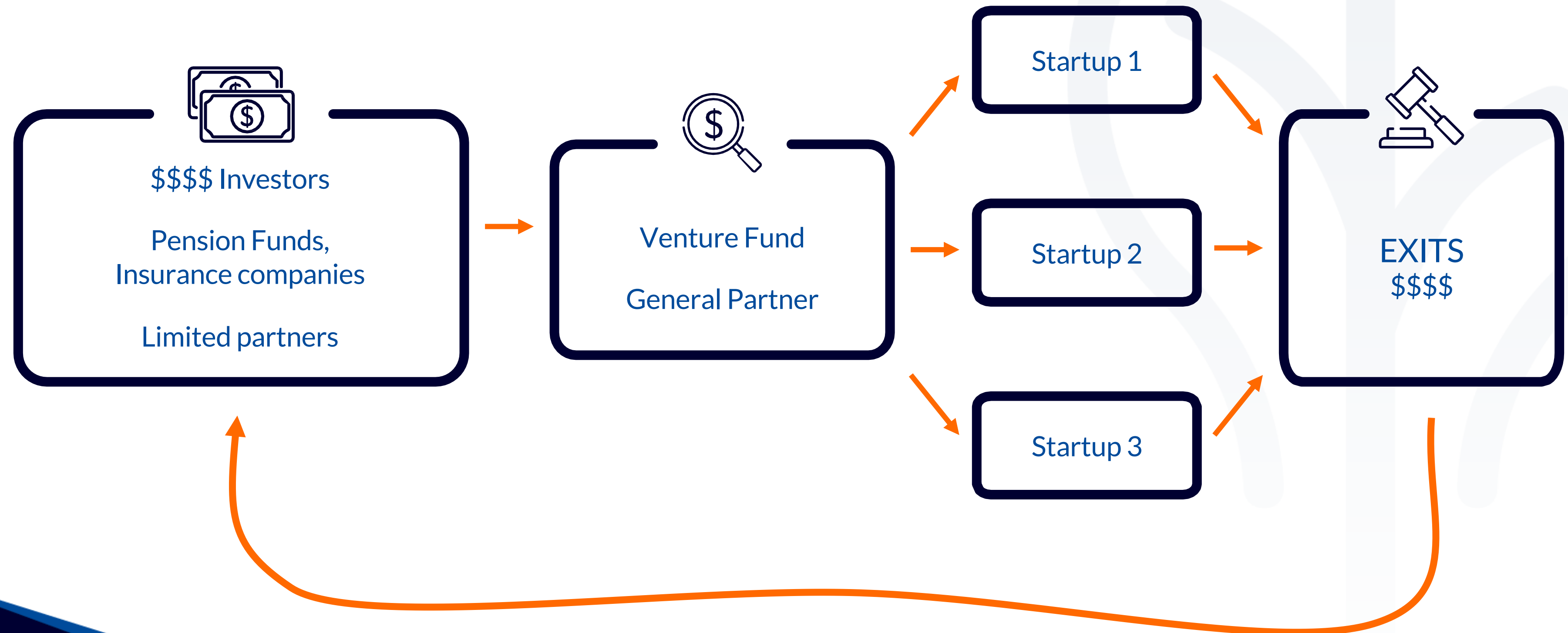
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They don't have enough time to succeed

- And Why Don't They Have Enough Time?

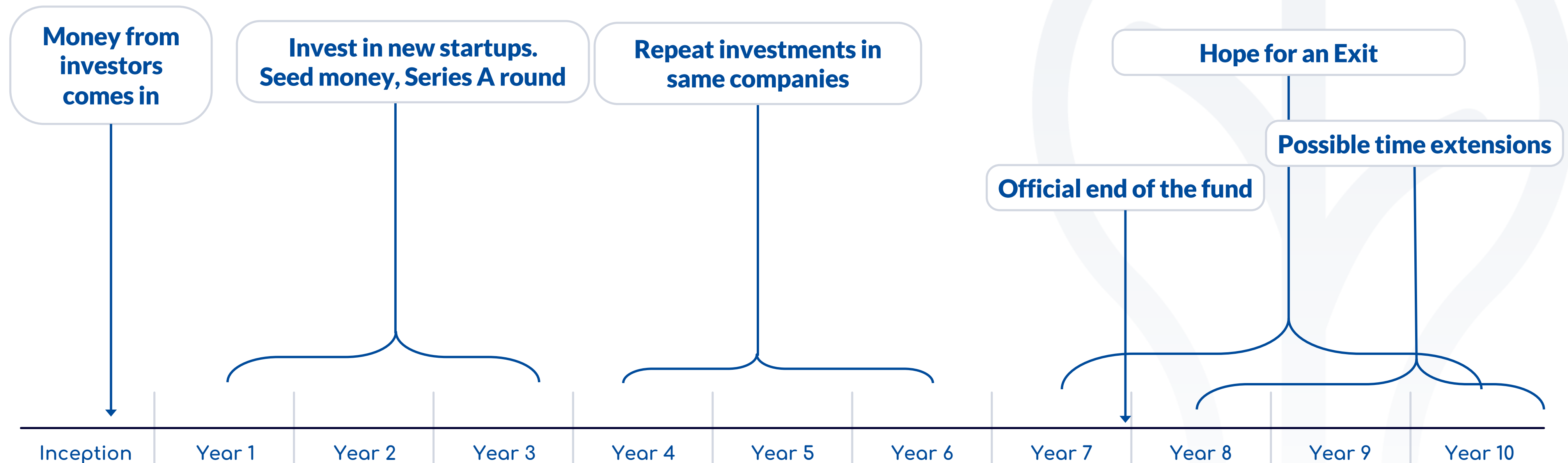
For that, we need a better understanding of how Venture Capital funds work

# Venture Capital Money Flow





# Venture Capital Timeline



# If 9 out of 10 Fail, How do VCs Make Money?

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- An Exit on the 1 out of 10 companies must be very **BIG**
- Very **big Exits** are usually when companies go public (IPO) in the USA on Nasdaq or NYSE
- In the last 10 years, 12,000 startup companies were founded in Israel (\*)
- in the last 10 years, 68 companies went public on Nasdaq or NYSE. In other words: 1 in 200 had a **BIG** Exit

(\*) IVC Data

# Why Did So Few Companies Go Public?

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**For a company to go public it needs to have:**

- Revenues of \$100m and up.
- Year over year growth rate of 20% or more.
- Preferably profitable.



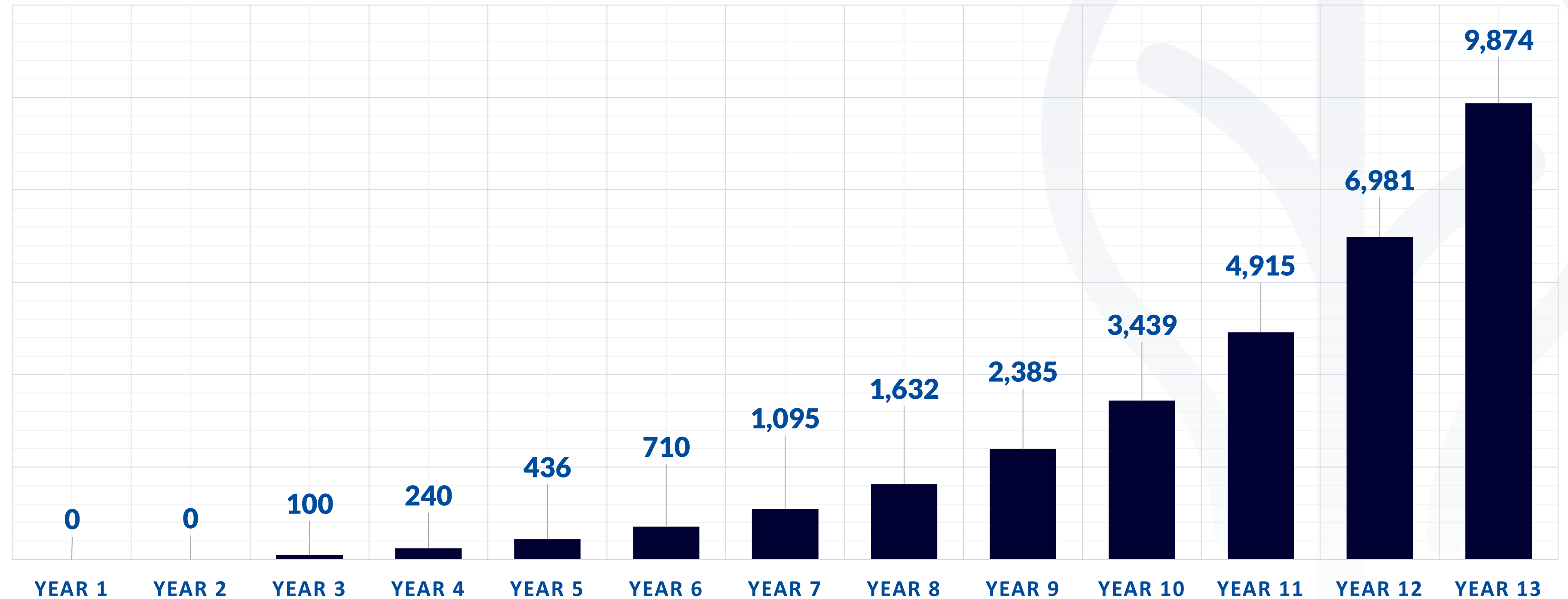
# What's Needed to Get to \$100m in Sales?

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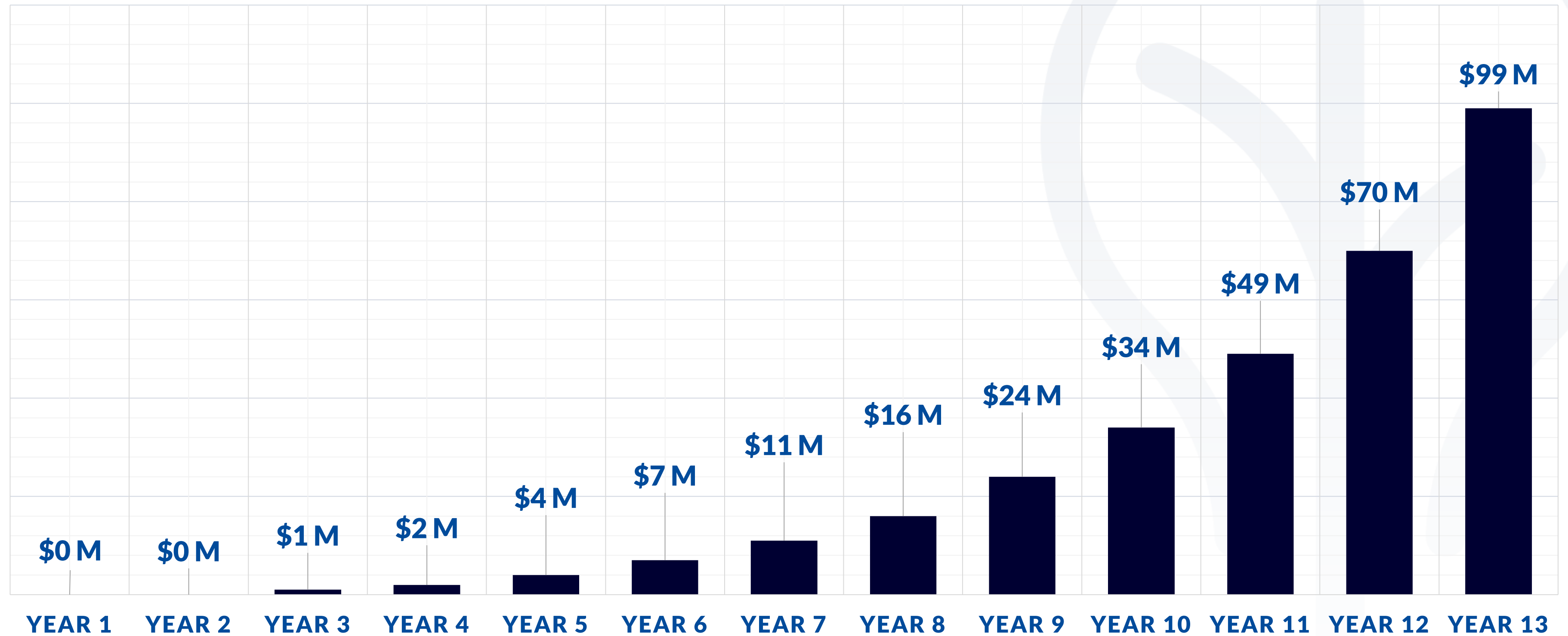
## Let's build a model - Assumptions:

- SAAS product, \$10,000 per year license
- Years 1 & 2 product development – No sales
- Year 3, first 100 customers
- Year over year growth rate of 40% in number of new customers
- Perfect renewal rate of 100%

# Customer Growth



# The Path to \$100m





# What is the Amount of Investment Needed?

- In a typical software company, 70% of expenses are salaries
- To foster this rapid growth, the company will grow its team at about the same pace of 40% YoY
- The company will start generating cash profits only in year 12
- And will lose \$100 million in aggregate in its first 11 years
- As a result, company management raises money continuously

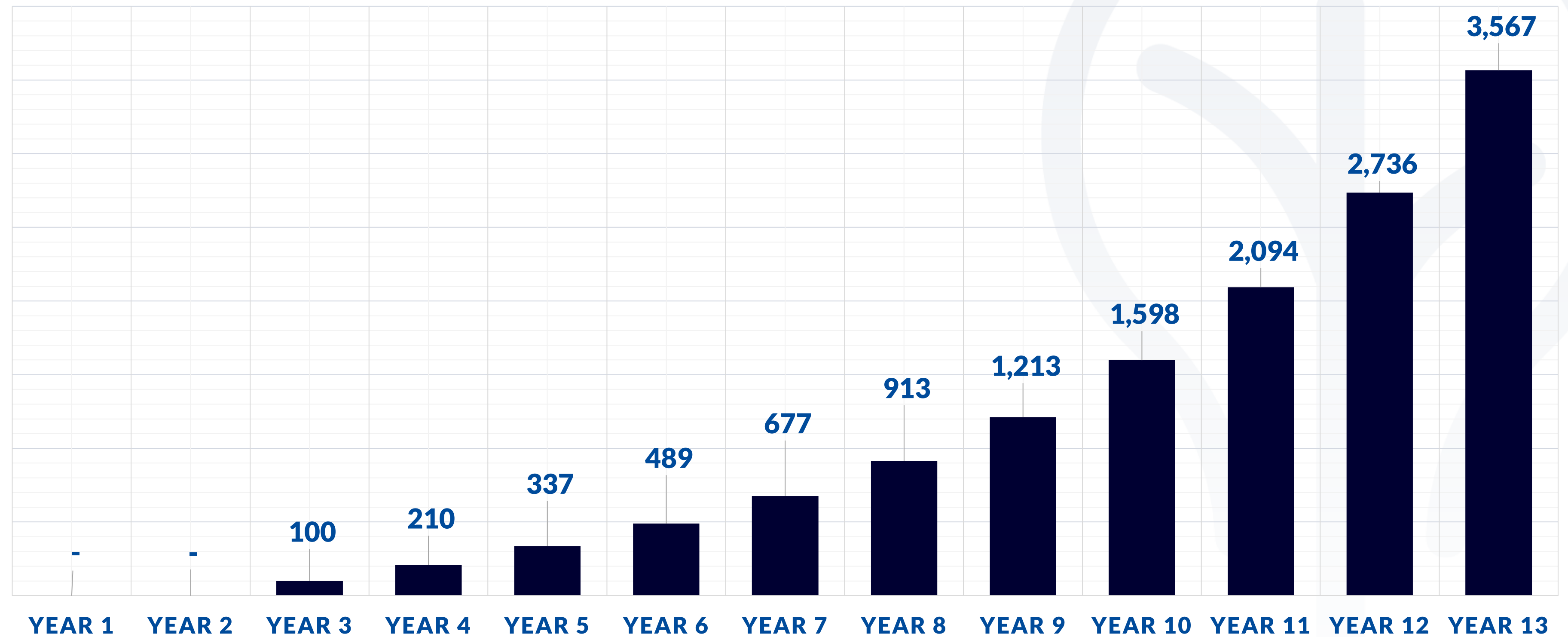
# But... What if Life is a Bit Harder?

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## Model Assumptions:

- SAAS product, \$10,000 per year license
- Years 1 & 2 product development – No sales
- Year 3, first 100 customers
- Year over year growth rate of 30% in number of new customers
- Realistic renewal rate of 80%

# Customer Growth





# Sales Per Year



# Why do 9 out of 10 Venture Backed Companies Fail?

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- The drive for growth and an EXIT-by-IPO leads management to hire many people early on, to support a hypothetical growth
- In many cases, these newly hired people are not effective because the company is still charting its path
- Hiring many people increases cash burn rate early in the company life, before it has significant revenues
- Drive for Growth, Growth, Growth
- Pressure, Pressure, Pressure !!!

# Why do 9 out of 10 Venture Backed Companies Fail?

- Because of the high cash burn rate, companies need to raise money all the time
- And what happens if sales don't grow fast enough?
  - They have difficulties in raising additional money
  - They need to reduce expenses and lay people off
  - Need to continue to reduce expenses and lay more people off
  - Morale and confidence decline, and the company spirals downward
  - They shut down, or get stuck in “death valley” and become a “walking dead” company
- They don't have enough time to succeed



# The Story of Rosh

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**ROSH**  
Intelligent Systems



An Expert System to help field technicians of complicated equipment, diagnose and fix machines in the field

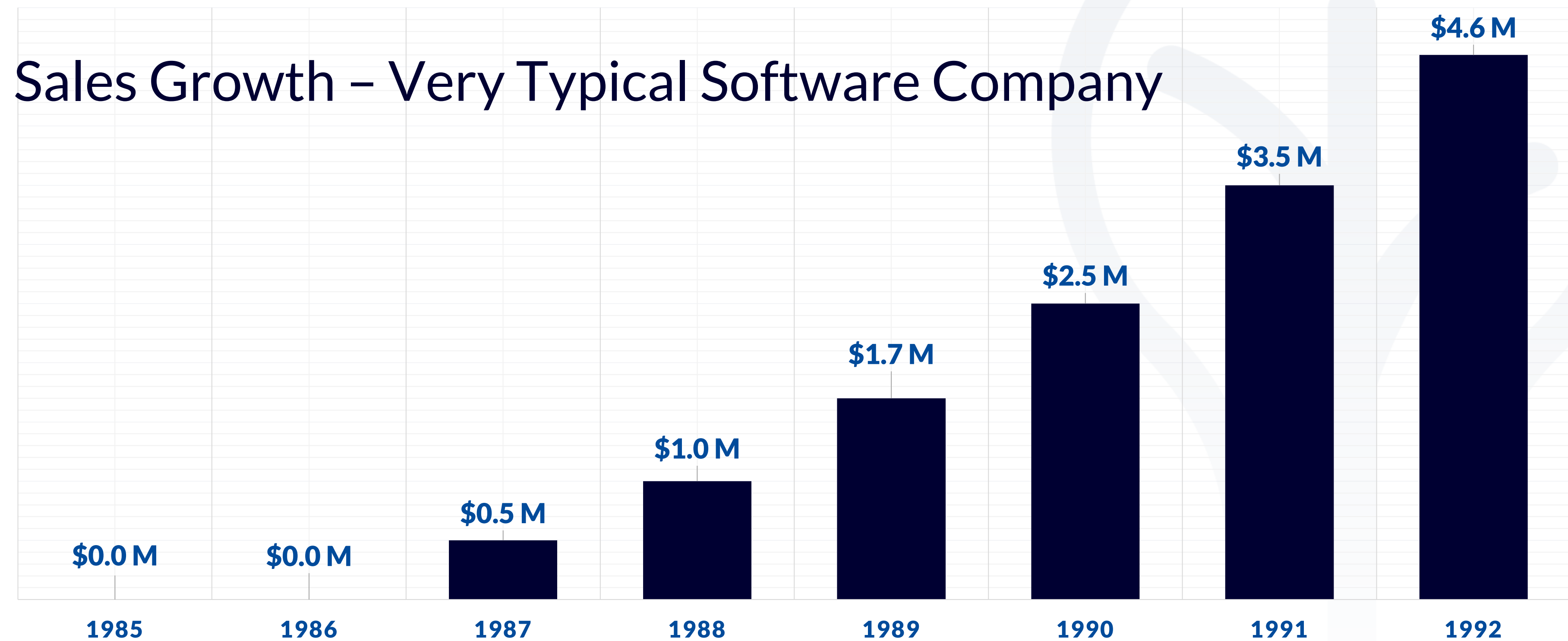
# The Story of Rosh

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- Founded in 1985 by myself and 2 other founders
- Offices in Jerusalem, Boston and Brussels
- About 60 people in 1992, ... my last year as CEO
- Customers included: Xerox, Varian, Applied Materials, Lam Research, Siemens Medical, Philips Medical, among others

# The Story of Rosh



# The Dirty Secret

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- The company was losing money – My job as CEO was to continually raise money from VC funds
- Raised \$11m in 4 rounds, from 6 different VC firms
- Raising money for a company that is not flying high is an exhausting task – Something had to be done
- **Ah ha moment – Let's be profitable, no more fund raising**
- Tried to bring expenses down to be under revenues  
..... layoffs and closing an office

Lost my job 😞

# 9 Out of 10 Companies Fail ...

**OK, got it !!! So tell me HOW not to fail?**

Change the goal of the company from an EXIT

To PROFITABILITY

Profitability = Positive cash flow. Generating cash.



# Why Profitability?

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**What is the difference between a company that**

- generates a profit of a million dollars a year,
- and a company that loses a million dollars a year?

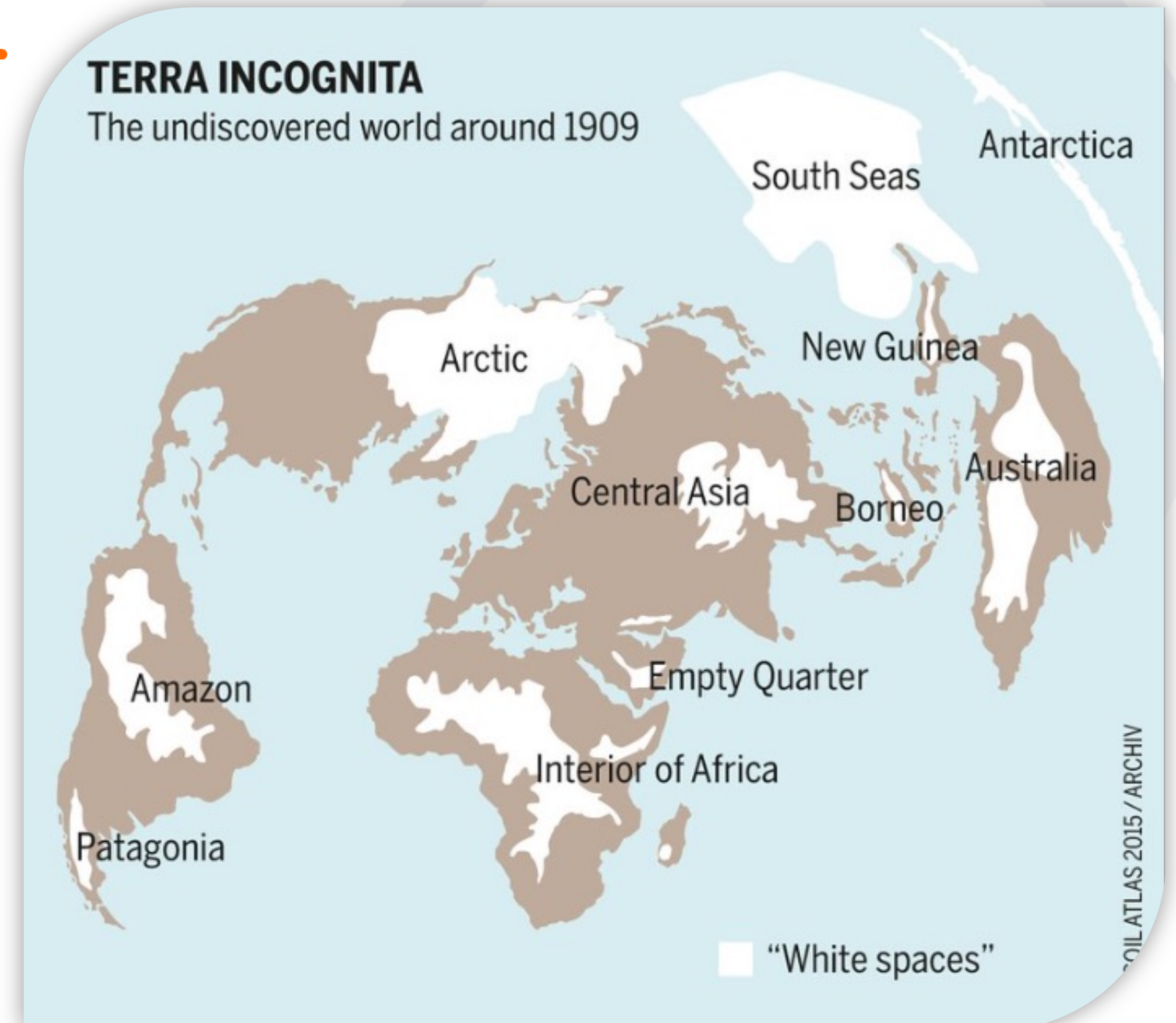
# Why Profitability?

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- A company that loses a million dollars a year  
→ You know when it will run out of money
- A company that generates a million dollars a year  
→ Can live forever. They don't run out of time !!!
- A company that generates a million dollars a year has:
  - Time to make mistakes, learn and pivot if needed
  - Less pressure
  - Freedom

# Terra Incognita

- Building a new company is like exploring a new territory
- It is unknown, exciting, rewarding, scary and dangerous
- You need training, preparation and resources
- Exploring takes time
- AND you need to learn how to survive off the territory or you could die of hunger





# The Oregon Trail

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- From Missouri to Oregon, 3,000 km, 20 km/day
- My daughter's assignment:
  - A family of 4
  - Food for 6 months
  - Clothing
  - Tools
  - Guns
  - Seeds
  - All in one wagon



# The Startup Terra Incognita

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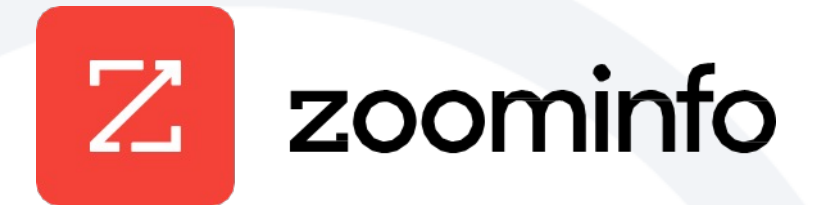
You need time to figure out:

- Who your customers are
- How to reach them
- What to tell them
- How to make them pay attention
- How to make them buy and pay
- At what price
- How to build your team
- What product to build
- How to build it
- ..... And on and on



# Terra Incognita – ZoomInfo

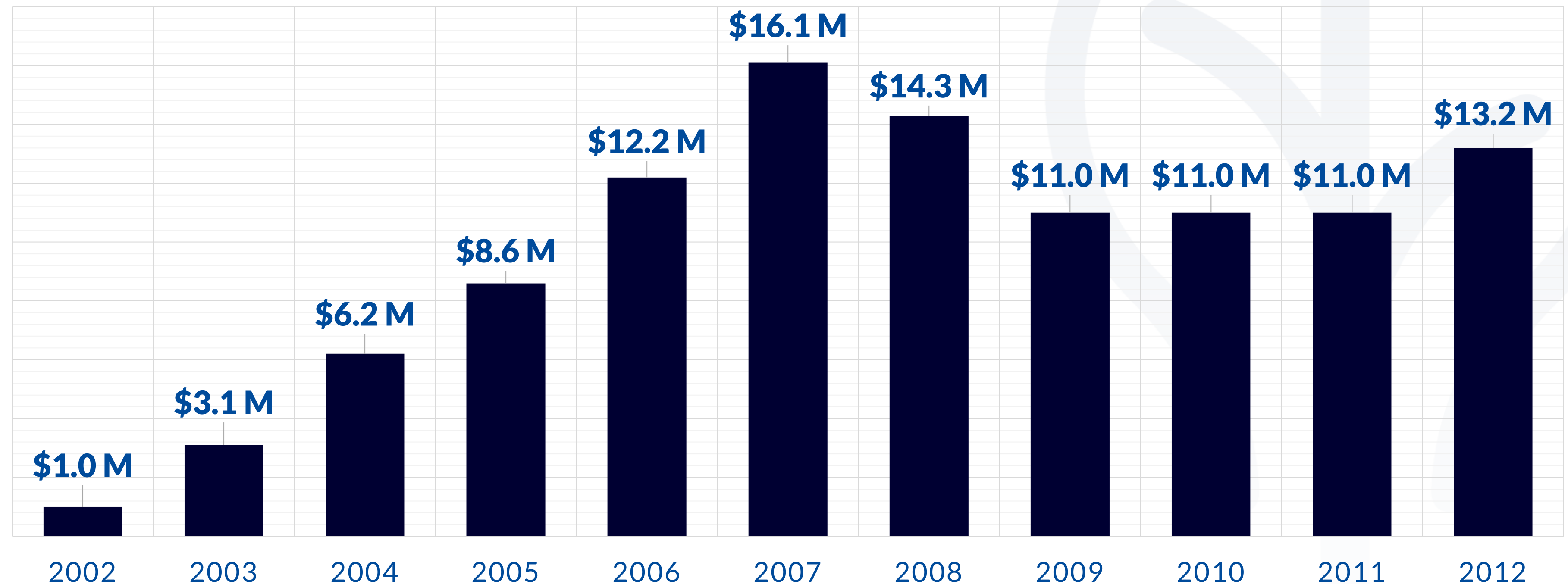
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## The vision:

- A database of information about people and companies
  - Created automatically by crawling company websites and news sources
  - Extracting information from text using Natural Language Processing
  - Building a structured database
- 
- Company founded in 2000, by myself with 2 developers
  - Spun-off from CardScan, funded by CardScan
  - Started selling licenses in 2002, to recruiters
  - Profitable in 2003, generating cash ever since

# ZoomInfo 2002-2012 – Terra Incognita



# The Two Most Important Rules

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- Rule number 1: Always be profitable
- Rule number 2: Never forget rule number 1

# How to Build a Profitable Company?

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- There is a methodology to building a profitable company
- The methodology deals with every aspect of the company, from marketing to product development, from sales to operations, from hiring to finance
- We call the methodology “SmartUp Guiding Principles” and we discuss, practice and apply them to your company in the SmartUp Academy

# Guiding Principle: Marketing First

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- What is the purpose of marketing?
- To change behavior
- Behavioral change must be measured
- Behavior of whom?
- Prospects in your market – people
- How do you change behavior?
- You must inter-act with them



# Guiding Principle: Marketing First

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## Marketing Challenges

- Who are your customers?
- How can you reach them?
- What do you tell them? Do they understand what you say?
- How do you make them respond?
- How do you measure your success?
- ..... and many more questions

# Guiding Principle: Marketing First

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- Marketing is the most important thing you do in a company
- If you build it they will come. ?? (Field of Dreams)
- It takes a long time, and many repetitions, to change behavior
- Marketing is the first thing you do in your company, before developing your product
- Responses to marketing guide your strategy and product development – The principle of Market Islands

# Guiding Principle: Marketing First

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- How do you do marketing for a product that doesn't exist?
- And how do you do it on a small budget?
- Google is your best friend
- Start creating content that your prospects are likely to search for
- The “Long Tail” Guiding Principle
  - ZoomInfo Directory
  - TripAdvisor
  - CrunchBase Directory

# Marketing First – Opster

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**Opster – Tools for DevOps engineers to manage and optimize mission critical Elasticsearch clusters**

- Very hard to explain what Opster does
- It is not just a monitoring tool, but what is it exactly?
- Who are the customers?
  - Elasticsearch DevOps engineers
- What do they search for on Google?

# Marketing First – Opster’s Long Tail Opster

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- Error logs - ~ 1,000 error log pages published within months of inception
- About 100 error log pages get 80% of web traffic
- Opster’s website gets 100,000 **targeted** visitors a month, and growing
- And it costs nothing



# Marketing First – Explaining Opster Opster

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- Interaction and demonstration – the Checkup idea
- 600 new users a month sign up and run Checkup
- Opster has 12,000 registered users
- A very strong brand name in the ElasticSearch community
- Just one little problem...
- **Not enough leads** – Terra Incognita

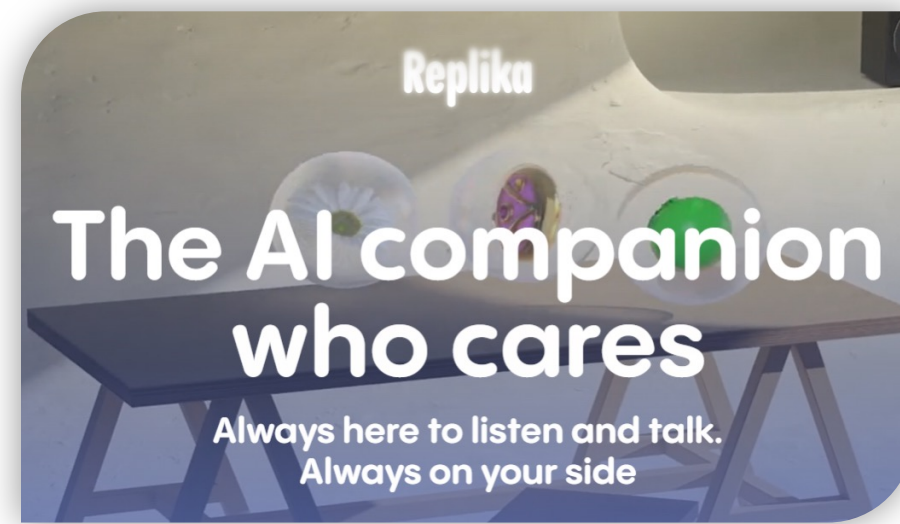
# Marketing First - BeBuddy

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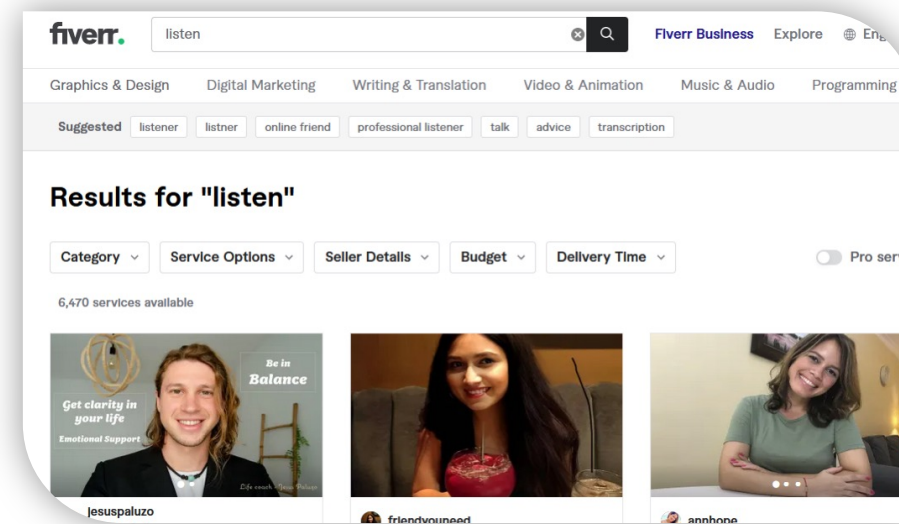
BeBuddy is a platform where people can schedule a video meeting with an empathic buddy who will give them full attention. A safe place to talk about their life, their challenges and their feelings.



# BeBuddy: Competitors



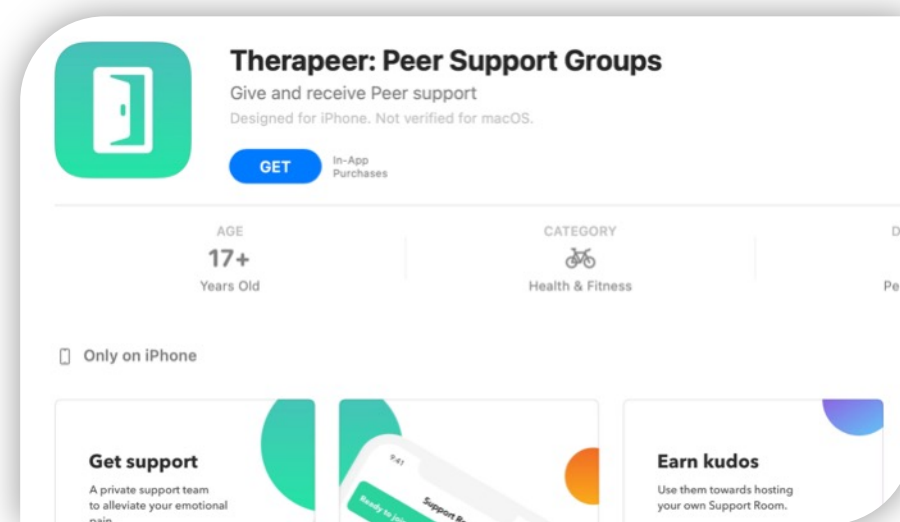
Replika



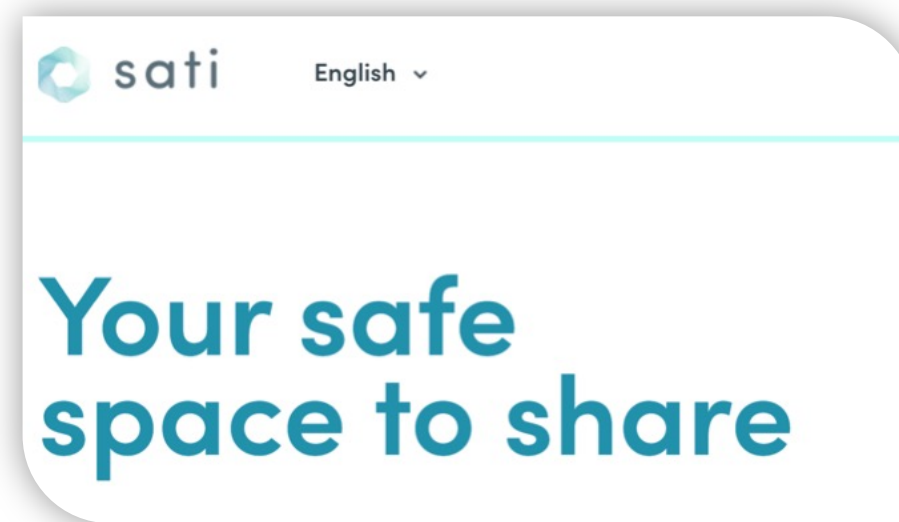
Fiverr



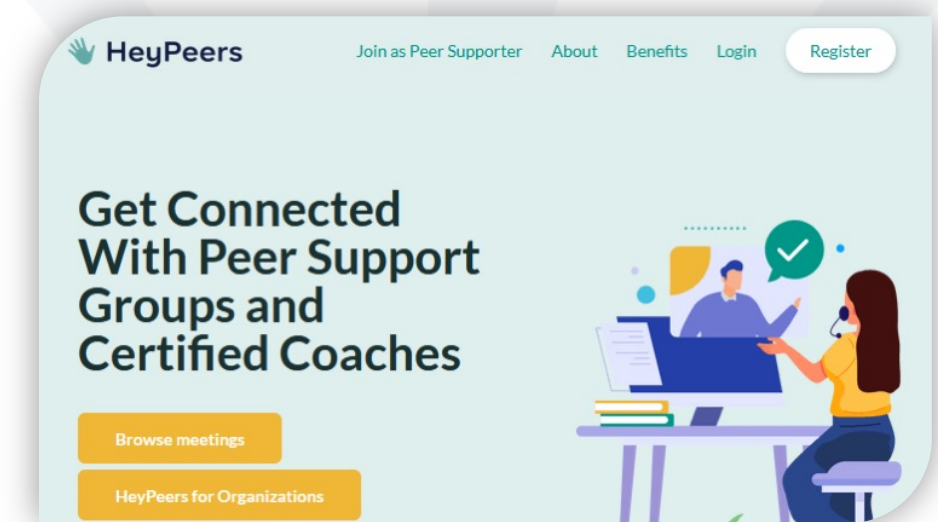
Supportiv



Therapeer



Sati



HeyPeers

And many others

# BeBuddy: Marketing first

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- Marketing channel – Facebook, \$3,000 budget
- Simple campaign to find our customers- buddies and users
- 114 potential users and buddies answered our questionnaire
- 25 interviews of 30 minutes each with users and potential buddies
- **Most importantly – Identified a productive market island**



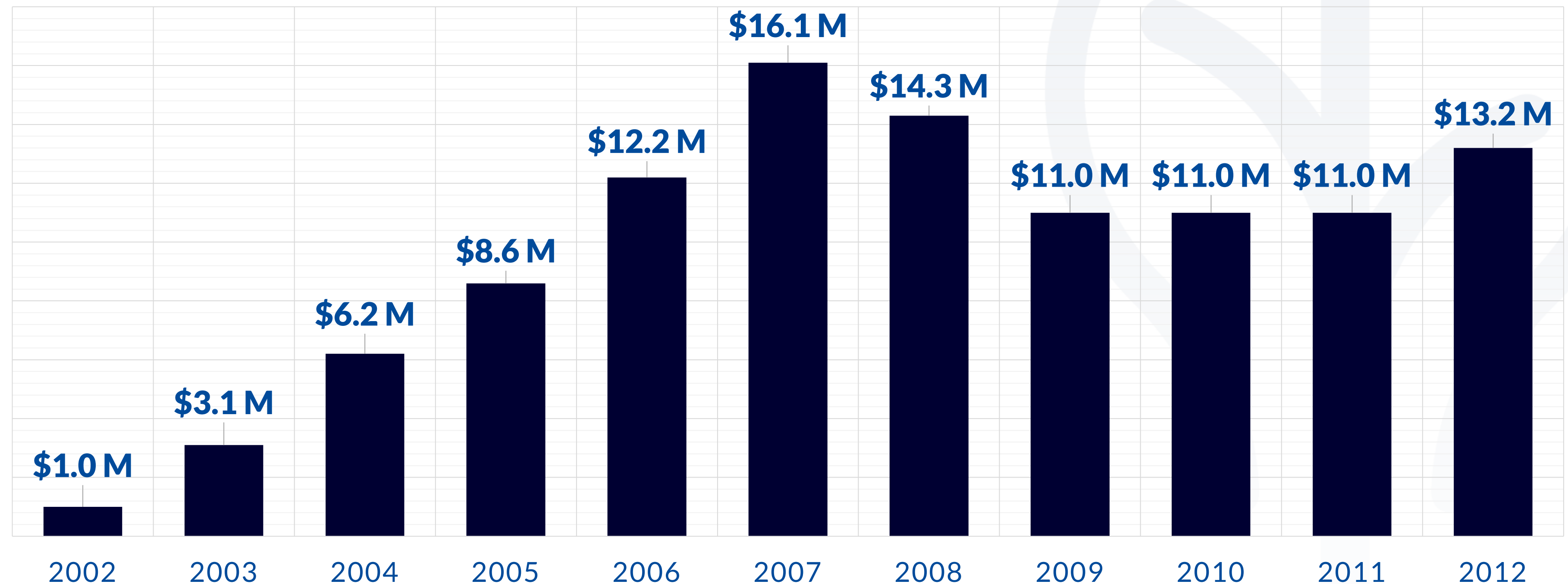
# BeBuddy: Insights Learned

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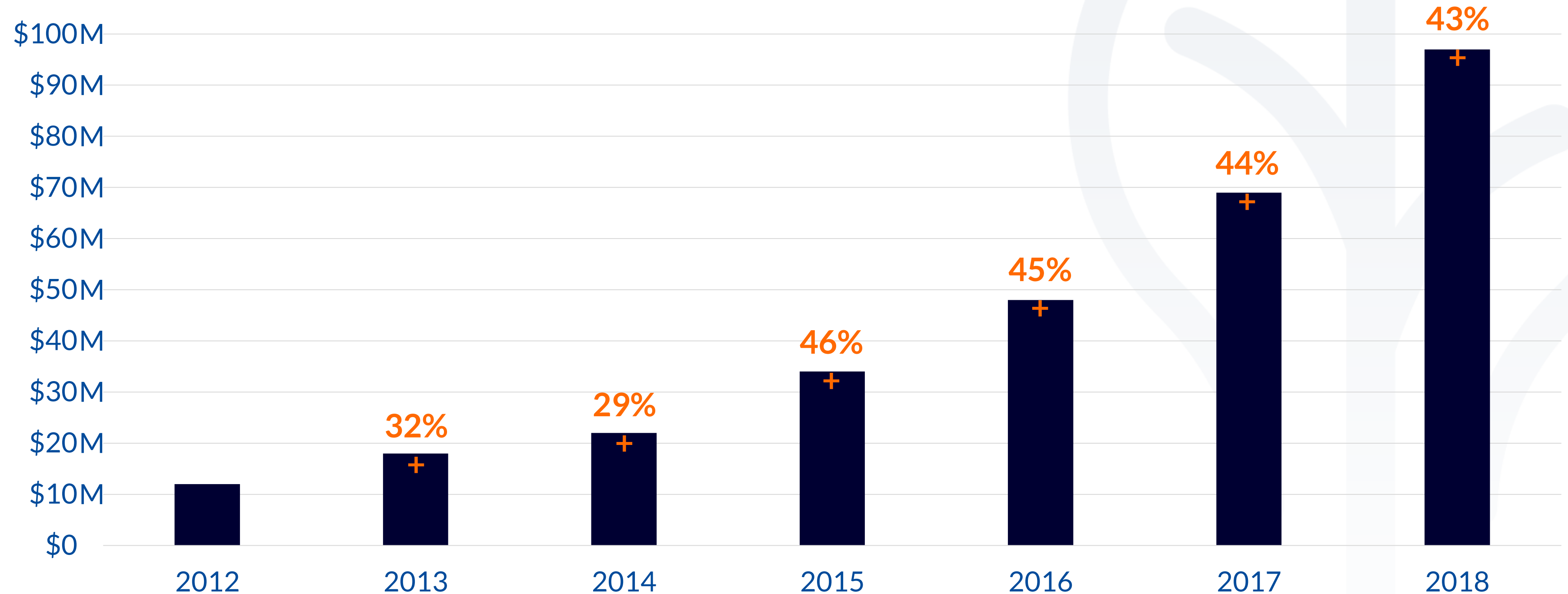
- Users would pay \$75 or more for a 1 hour meeting
- Would pay more if a buddy is "available now"
- Buddy searches by:
  - Gender
  - Age
  - Proximity to each other
  - Common interests
  - Shared background.



# ZoomInfo 2002-2012 – Terra Incognita

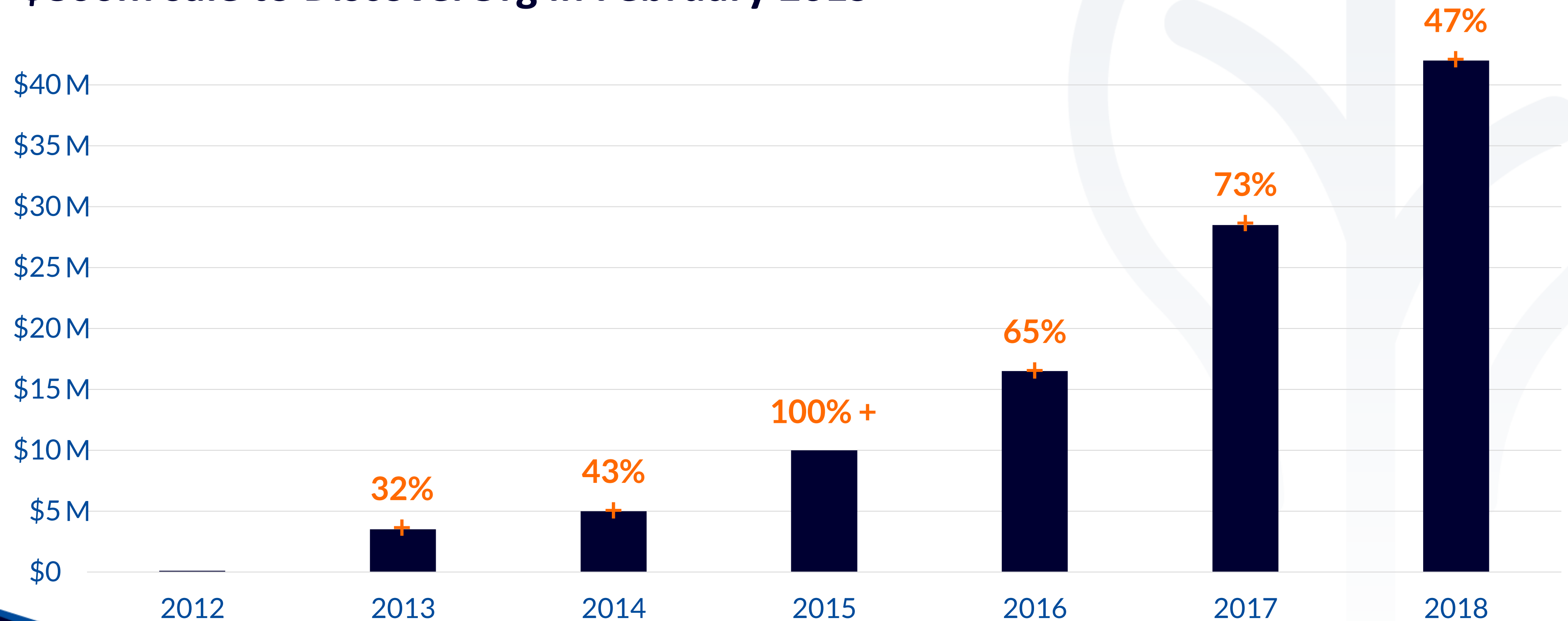


# ZoomInfo Sales Growth 2012-2018



# ZoomInfo Cash Profits Growth 2012 2018

**\$800m sale to DiscoverOrg in February 2019**



# How Do You Build a Profitable Company?

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## Sample of subjects discussed and practiced at SmartUp Academy :

- How do you start marketing before you have a product
- Google is your best friend - Long tail marketing strategies
- The concept of Market Islands
- What is a business model and its far-reaching implications
- Innovate as you go – the flag on the hill
- What is a brand and how do you create one
- Do you need to be first to market?
- The devil is in the details – competitive theory

# How Do You Build a Profitable Company?

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## Sample of subjects discussed and practiced at SmartUp Academy :

- How to make money on free products
- Are customers sensitive to price? Pricing models
- The urgent vs. the important
- How to build the core founding team
- Continuous incremental improvements
- When, how and from whom to raise money
- How to increase subscription renewals
- ..... and many more Guiding Principles



# SmartUp Academy

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**A residency program to teach the profession of building successful companies.**



# How Does it Work?

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- It is a residency program – you learn by building your company
- SmartUp becomes a co-founder in the company staying with it for years
- SmartUp works with you in setting the strategy and the execution (the devil is in the details)
- Weekly or bi-weekly management meetings with SmartUp staff
- Seminars with other participants and SmartUp staff

# How Does it Work?

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- Lectures and presentations by Yonatan and SmartUp staff
- SmartUp helps in fund-raising
- SmartUp helps in recruiting
- Guidance on the basics of running a company
  - Marketing and sales tools
  - Operational financial reports
  - Tax and legal advice
  - Cash conservation

# Who is SmartUp Academy For?

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**The SmartUp Academy is intended for 5 different audiences:**

- Founders - at any stage of their company creation journey
- Companies that want to do better
- People who want to be entrepreneurs
- Investors who want to participate
- People who just want to learn



# Founders

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## Founders - at any stage of their journey

- You are an entrepreneur, with or without experience
- You have a project you believe in
- You work full-time on your project
- You have or don't have co-founders or a team
- You have or don't have a demo of your product
- You need help taking it forward in a professional way



# Companies That Want to Do Better

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- Your company is already established
- You have a team working
- You raised or didn't raise money
- Preferably:
  - You have a product
  - You already have paying customers
  - You are profitable 😊

# People Who Want to be Entrepreneurs

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- You have a dream of some day starting your own startup
- You have, or you don't have, ideas for a product
- You are currently working full time in engineering, marketing, product or any other position
- You want to learn how to build a company, while working at one of SmartUp companies

# Interested Investors

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- You are a professional VC fund, or an angel investor
- You are interested in having early access to SmartUp companies
- You want to explore innovative return on investment strategies for companies that aim to be profitable, and need more time

# People Who Just Want to Learn

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- You want to come to our presentations
- You want to receive materials that we publish
- You want to participate in some meetings
- You want to join our mailing list

# How to Apply?

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- Go to our website [www.smartupacademy.org](http://www.smartupacademy.org) and fill out a form





# Summary - Two Take Aways!!

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1. Building a startup company is exploring Terra Incognita
  - It takes time, resources and many dead ends
  - You must learn how to sustain yourself from the territory – become profitable as fast as you can
2. Building a startup company is a profession and it can be taught and practiced

# The SmartUp Team

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**Yonatan Stern**  
Founder



**Libby Molad**  
COO



**Ayala Dinur Turgeman**  
CFO



# The SmartUp Team

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**Alex Yermakov**

Software Engineer & Researcher



**Batya Feldman**

Content Writer & Researcher



**Ruthie Surujon**

Curriculum Developer



**Dr. Renana Levioni**

Marketing Manager

# Two Questions

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- If I were to do this presentation again, would you tell a friend to come and listen?
- For future presentations, would you recommend we schedule them in:
  - The morning
  - Around noon time
  - The evening