



The principles of accelerated growth of startups

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# Case study:

facebook

Start-up from Harvard that had a big potential from the very beginning – huge traction showed they have found a product-market fit very early on.



Mark Zuckerberg, a software developer, wrote the webpage software in early 2004.

In 2012, it became the fastest company to ever join the Fortune 500 list, less than a year after its IPO.

It had 1 bln users, USD 5 bln revenue, USD 15 bln of assets and 5000 employees.

# How did they manage to grow so much in less than 8 years ?

- ▣ Idea: Jan 2004 (Mark had a successful implementation of a similar idea in Nov 2013)
- ▣ Minimum viable product launch 4.2.2004 – thefacebook.com
- ▣ In 3 days, he is accused of stealing the initial idea. The final settlement was for 1,2 mil shares of Facebook (cca. USD 300M).



The Social Network – movie about the startup phase of Facebook.

[The Accidental Billionaires: The Founding of Facebook](#) – book about the same.

# Seed phase

- At first, they were only active at Harvard (*narrow target segment*).
- In the first month 50 % of all students became members. They are joined by 4 other founders (*paid only with shares – minimal burn rate*)
- Next month they add 3 other universities. In 6 months, they include most US universities (*huge traction and marketing – networking effect*)
- In June 2004 they move to the Silicon Valley.
- They are joined by Sean Parker (as a manager) with previous experiences in startup scale-up.
- He convinces them to focus only on growth and not on revenues. *They should use equity financing to cover the costs of growth.*
- He gets them the first seed investment from Peter Thiel (USD 500.000 for 10,2 % of the company).

With the first money they buy their domain name [www.facebook.com](http://www.facebook.com) (key asset – cost them 200.000 USD!)

# Financing

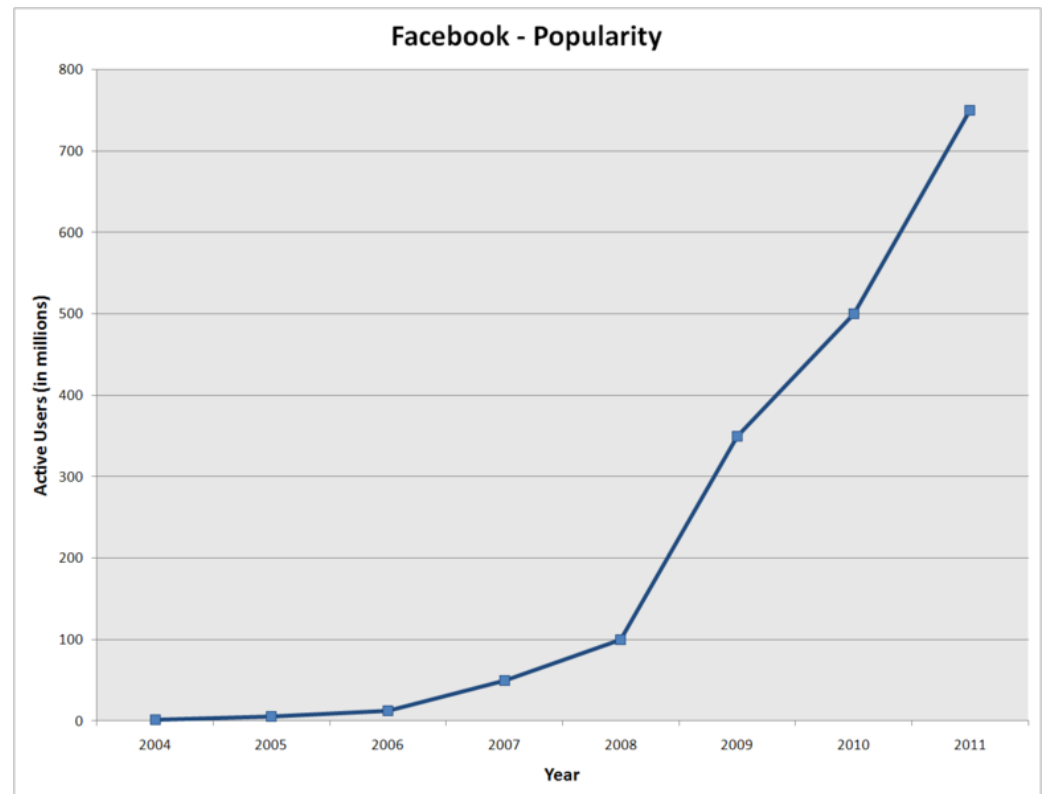
- First they were financed by friends and family.
- First equity investment was made by experienced business angel (PayPal) – *smart money*. First external investor is BA with experiences (PayPal). Nevertheless, he disperses his investment with 3 co-investors.
- This makes them part of the Silicon Valley ecosystem.
- The first investment was in the form of *convertible note*. It will only transform into equity capital if they reach 1.5 million users by the end of 2004.
- They miss this goal ! It could cost them the ownership of their company – like it did for the founders of CISCO.

# Financing

- In April 2005, Accel Partners VC fund invests USD 12.7 M, *valuating them at USD 98 M.* This is usually regarded as The B round (they skipped the A round altogether).
- Their condition was that the management team is expanded with their member Jim Breyer – besides Mark Zuckerberg and Peter Thiel.
- They still have negative cash-flow at the end of 2005 due to the costs of extremely fast growth !
- April 2006 – Series C – USD 27,5 M from several VC funds, including Peter Thiel and Accel Partner (to avoid dilution)
- Valuation of the company: USD 500 M.

# Growth

- In September 2005 they expand to high-schools.
- In September 2006 they open up and become free for all.
- In October 2007, Microsoft buys 1,6 % of the shares for USD 240 M.
- *This values the company at USD 15 bln.*



# What about profit ?

Zuckerberg (October 2008):

"I don't think social networks can be monetized in the same way that search did ... In three years from now we have to figure out what the optimum model is. But that is not our primary focus today."





# Cash flow

- The first positive cash flow is recorded only in September 2009.
- Until then it needs equity investments to cover the costs of its growth.

Year	Revenue (M USD)	Growth
2006	\$52	—
2007	\$150	188%
2008	\$280 <sup>1</sup>	87%
2009	\$775	177%
2010	\$2.000	158%
2011	\$4.270	114 %

The only companies in the world that are able to record over 100 % growth for 5 years in the world come from the Silicon Valley.

# Exit - IPO

- In May 2012, Facebook's shares are listed on NASDAQ Stock Exchange – the initial public offering (IPO).
- Its share was valued at 38 USD, valuating the whole company at USD 100 Bln (*the largest IPO in history*).



# Owners

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- Mark Zuckerberg has 28 % equity stake in the company today.
- Other founders have a few % each.
- The first investor Peter Thiel 3 %, manager Sean Parker 4 %.
- In the beginning, all costs were paid in shares – for example to paint the walls in their office.
- Today they are all millionaires.

# Why did they succeed ?

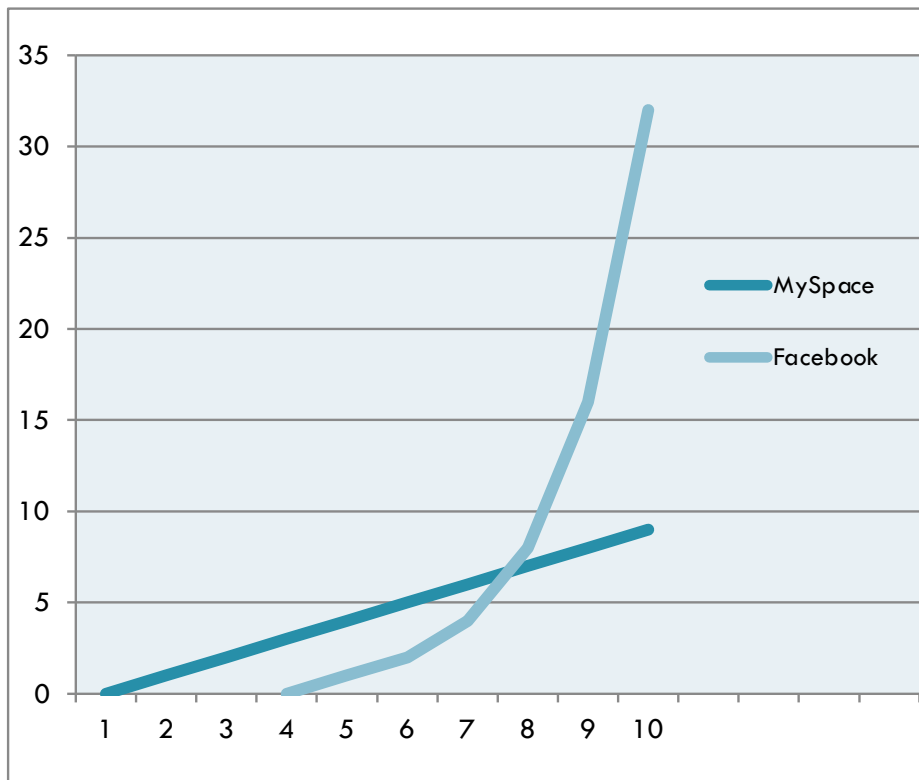
- They were not the first ones in the social network industry (MySpace)
- They are in the IT industry, that has huge growth potential.
- But they were also doing two things right: they were proactive and understood their weaknesses - surrounded themselves with experts who could help them succeed).
- Excellent marketing and scale up activities (stages of expansion created demand for them, recommendations)!
- Many copycat services – Google +, RenRen China – makes them constantly under threat.
- But they are the biggest in the industry which makes them more attractive to users !

# Why did they succeed ?

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- The main reason for their success was their accelerated growth !
- They simply outgrew their competitors, even existing ones (or those with arguably better product).
- How did they embark on the accelerated growth?
- The whole ecosystem was working in their favor – working hard to constantly increase their valuation !

# Accelerated growth is crucial



- When a potential market (customer pain) is discovered, the most profitable company will be the one that will be the first to capture it !
- So fast growth is all that matters. All factors must align in order to reach such fast growth.
- VCs are part of the story, often the most important one as they organize other factors for you – managers, HR, connections to exits...



That is why we've established FRC

**FRC ACCELERATOR:**

THE FACTORY FOR ACCELERATED GROWTH OF STARTUPS

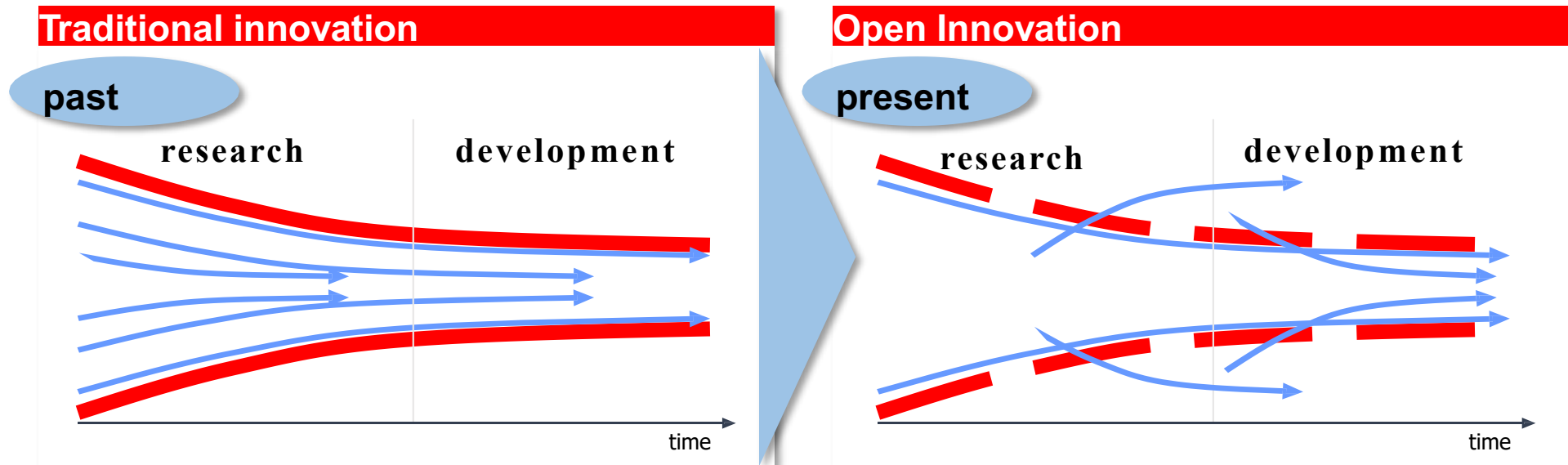
# Let's make a clear starting point

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Innovation is the **successful exploitation** of new ideas. The successful exploitation of a new idea relates to different forms of innovation – product, process or organizational innovations.



# The world has changed the way it innovates



# What venture accelerators do ...



## EDUCATE

entrepreneurs through on-the job training on a broad range of practical skills related to the business growth.

entrepreneurs to markets, capital, customers, partners, experts, information and role models through introductions, brokering and by creating bonds of trust and credibility.

## CONNECT



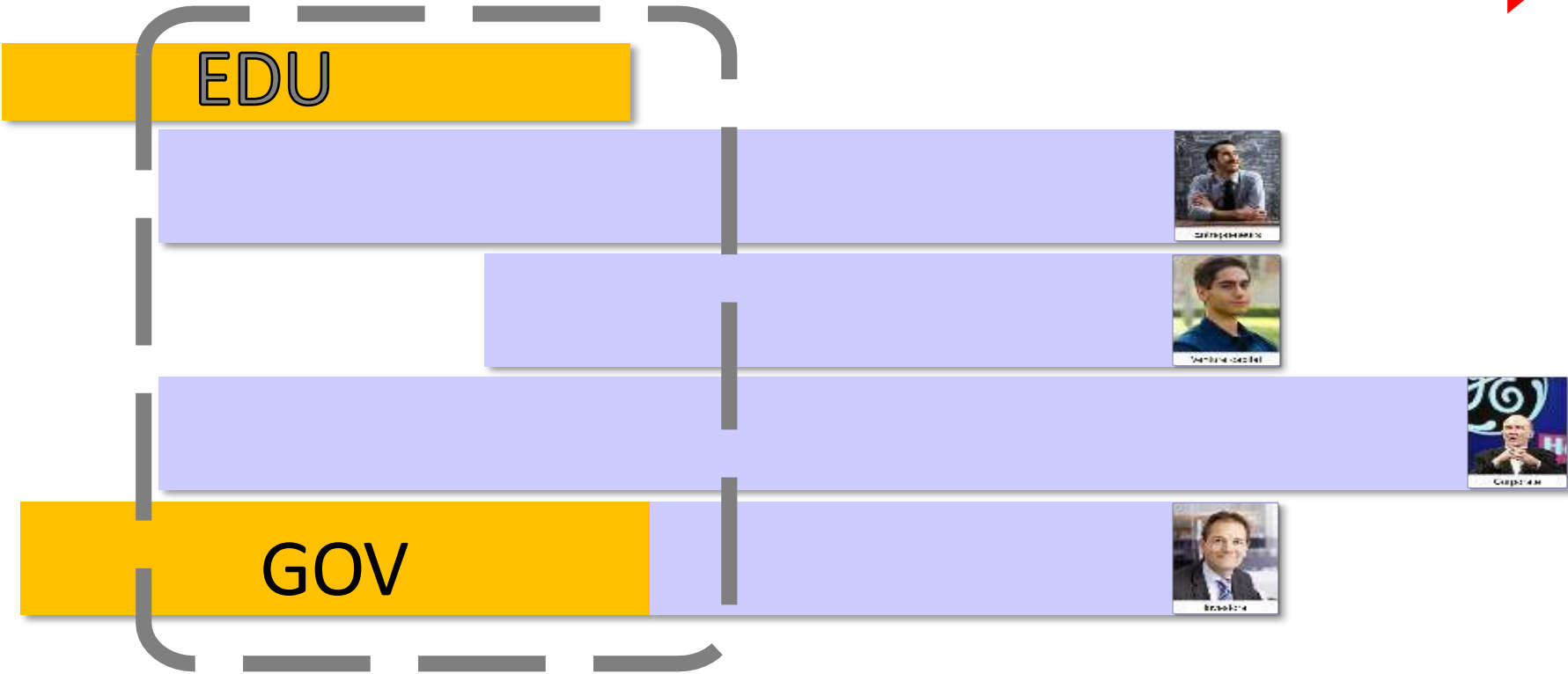
## VALIDATE

**business ideas through strategic advice and direction**, and by creating a supportive environment for **business development experiments**. Validation provides the critical value-added of venture acceleration networks. **Help ideas fail early**, often and inexpensively.

# Acceleration programs ignite the process from technology to entrepreneurship

Research

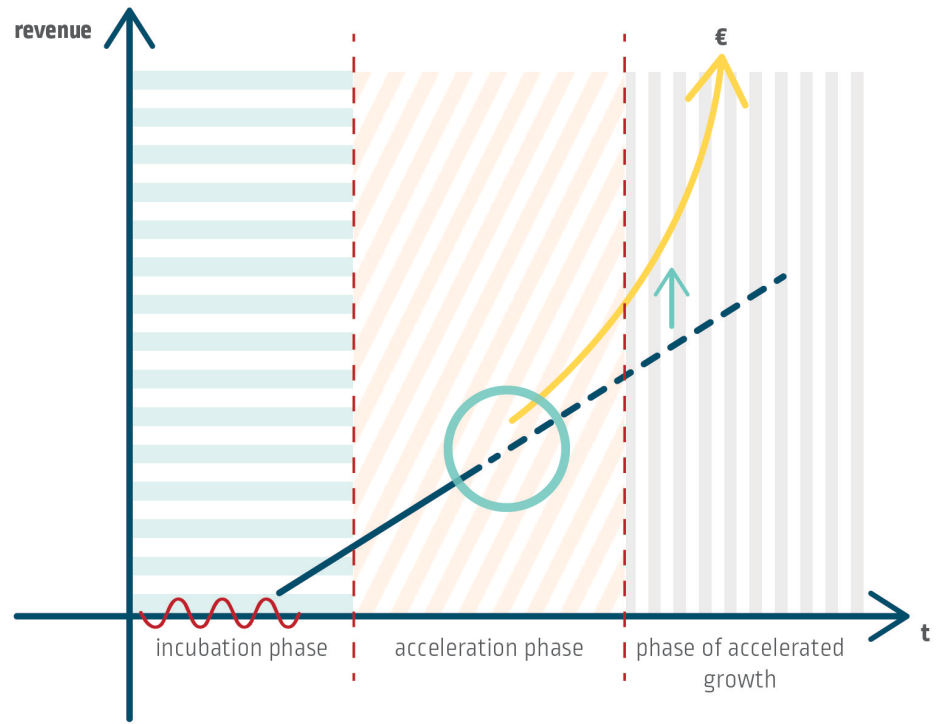
Market





# FRC ACCELERATOR

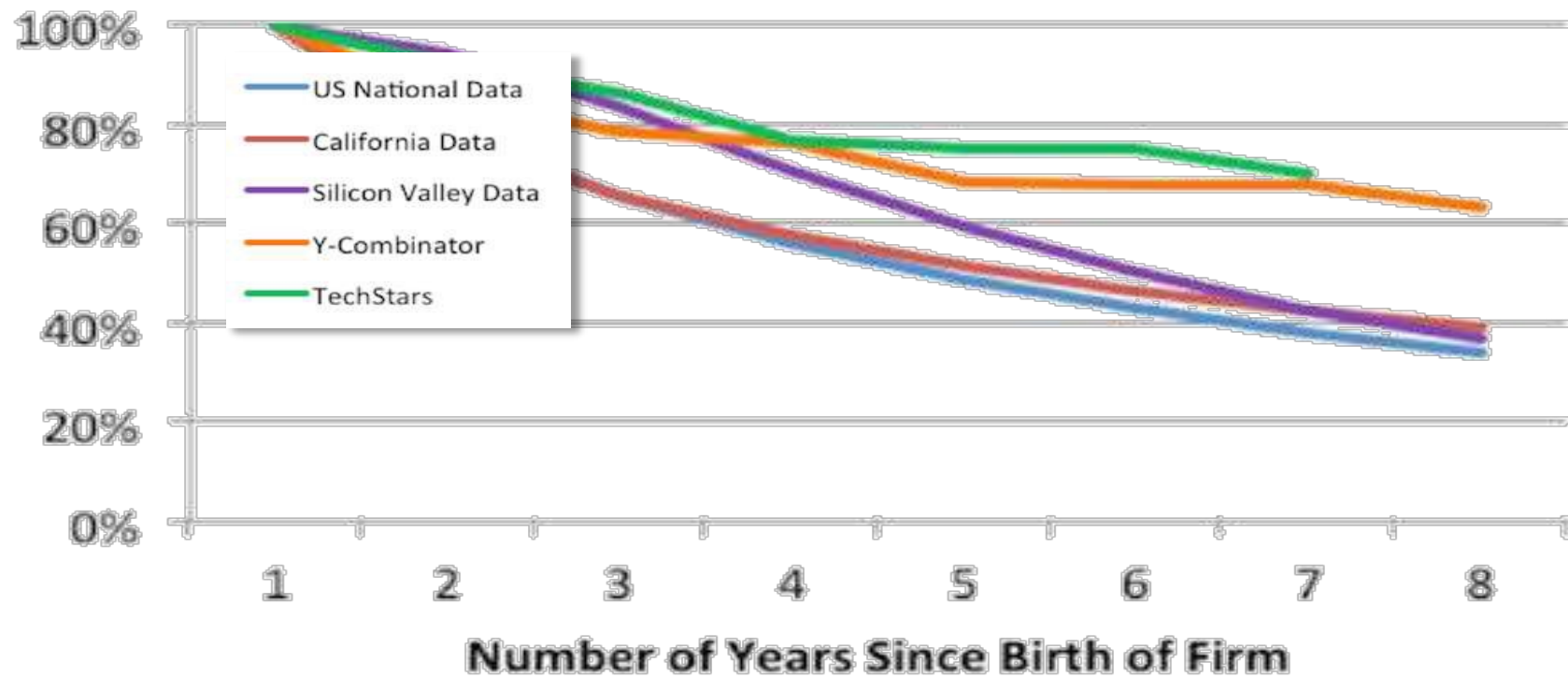
IS SYSTEMATICALLY REMOVING BARRIERS TO  
GROWTH OF STARTUP



↑ changing the mindset

○ program  
mentors  
investment  
connections

# Venture accelerators lower mortality ...



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# 1 ... and are often bridges towards VCs

## 1 SEED

- Founders
- Family
- Friends
- Fools
- Foundations
- Family Offices
- BP Competitions
- **Accelerators**

**Up to 50k Eu**

## 2 STARTUP

- Business Angels
- Research Grants
- Economic Promotion
- Mezzanine
- Crowd sourcing
- Micro Credits
- Guarantees
- **Accelerators**

**0.2 – 2M Eu**

## 3 EXPANSION

- Venture
- Capitalists
- Customers
- Suppliers
- Mezzanine
- Classical Bank

**> 1M Eu**