START – UP STUDIO MANIFESTO

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1. Introduction: let’s have a look to some definitions

INTRODUCTION: DEFINING CONCEPT

START-UP DEFINITION

A start-up represents a **dynamic** and **entrepreneurial** endeavor driven by innovation, aimed at **creating value** in the marketplace through the introduction of novel products, services, or business models.

4 necessary conditions:

SCALABILITY

REPLICABILITY

INTRINSIC INNOVATION

TEMPORARINESS

WHY START UP FAIL

- No market need, Ran Out of Cash and Not the right team represent the most common causes for a start-up fail.

There are three main reasons why there may be a structural problem of access to finance for innovative small firms.

FINANCIAL CONSTRAINTS FOR INNOVATIVE START-UPS

The returns to innovation may be uncertain and thus make innovation riskier to finance → **UNCERTAINTY**

SPECIALIZATION → **There may be information asymmetries making it harder for banks to value innovative investments**

New innovations may be highly context specific. → **EXPLOITING SPILLOVER**

Lee, N., Sameen, H., & Cowling, M. (2015). «Access to finance for innovative SMEs since the financial crisis». Department of Geography and Environment & Spatial Economics Research Centre, London School of Economics and Political Science

2 categories of specialized programmes

Accelerator

Incubator

Incubator

Ultimate goal:
To prepare a company to enter the market. Their efforts are focused on continuously reformulating a product (or service prototype).

Equity:
Incubators hold a small share in a company (if any) and many are founded by public bodies. Therefore, they do not need equity for their services.

Management Approach:
Hands off. The value of these entities is their role in bridging the economic and financial knowledge gap. Overall, their approach is based on mentoring

Accelerator

Ultimate goal:
Accelerators focus on achieving rapid company growth in order to more quickly reach a maturity stage where the start-up can complete the first round of funding.

Equity:
Accelerators invest in exchange for equity. The size of these investments are in the tens of thousands of dollars.

Management Approach:
Hands off. They try to stimulate growth through «accelerator programs», which include seminars, pitching, events, and demo days. They differ from incubators in terms of the duration, typically lasting three to six months.

4 categories of specialized investors

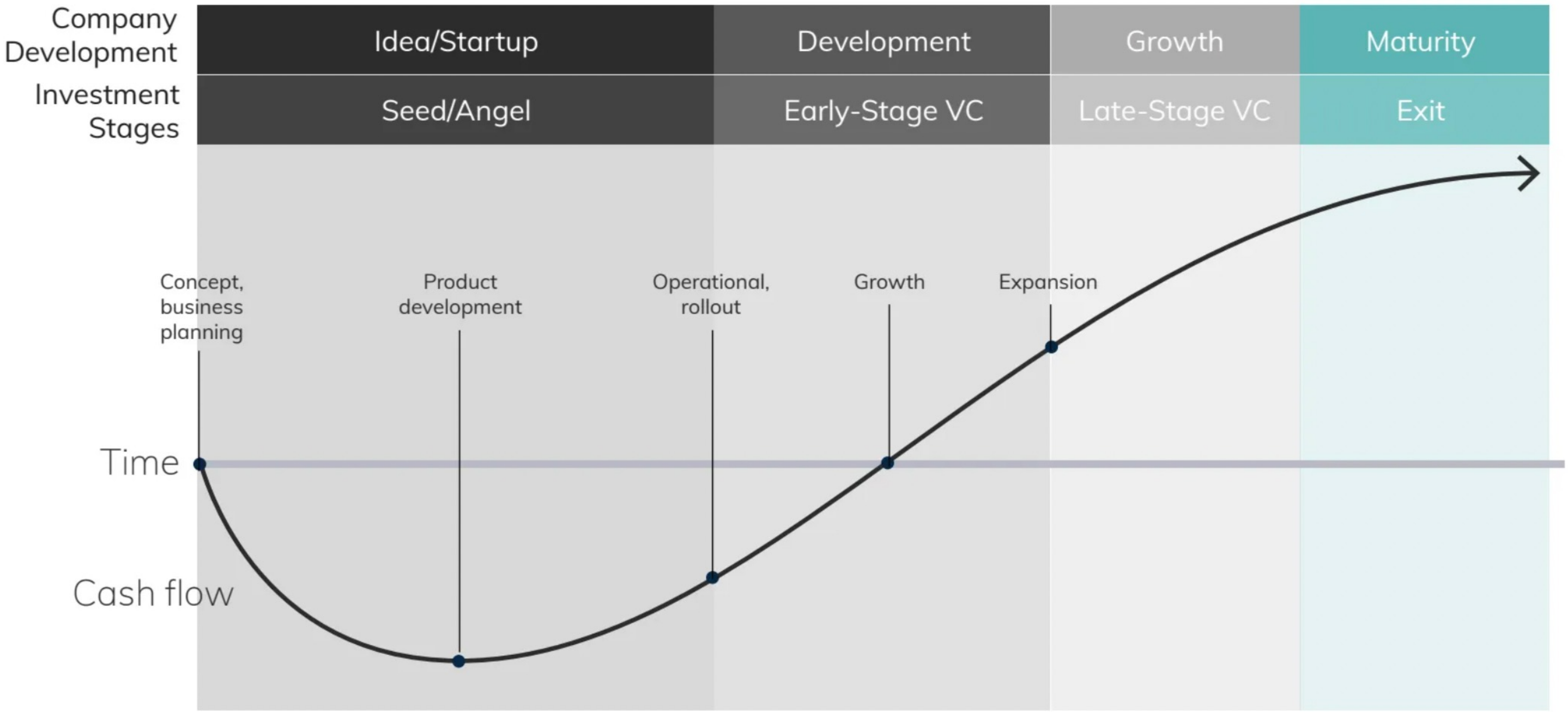
VENTURE CAPITAL

BUSINESS ANGELS

CORPORATE VENTURE CAPITAL

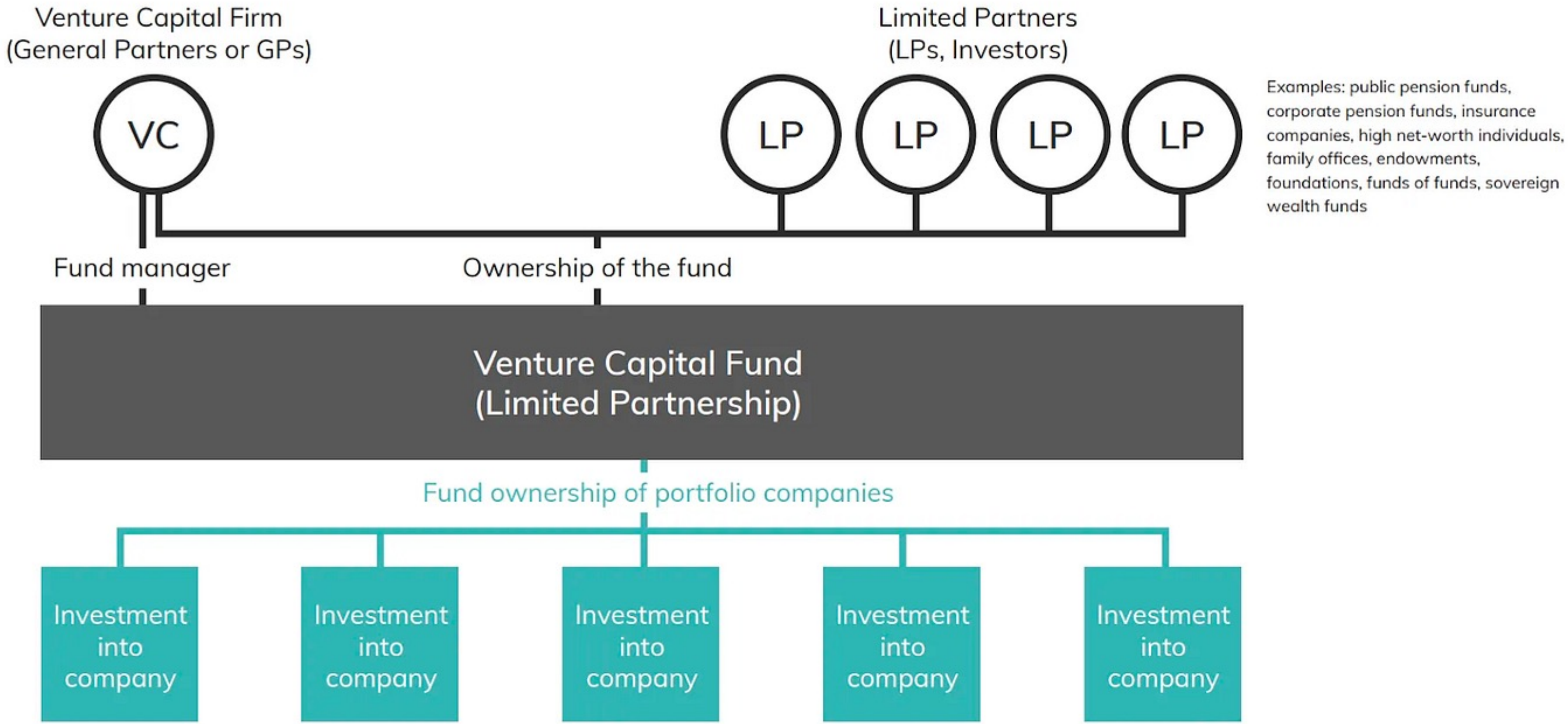
START-UP STUDIO

VENTURE CAPITAL



Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors

The VC Fund Structure



Source: https://ventureforward.org/resources-for-emerging-vc/introduction-to-vc/

How Venture Capital Works

Fundraising

VCs raise capital for funds from LPs.

Investment

VCs typically invest in young, high-growth companies in need of capital to scale.

Company Growth

VCs provide active management and act as advisors & mentors, taking board seats, providing strategic advice, facilitating introductions.

Exit

After about five–10 years of creating a high-growth company, the VC exits its stake via an acquisition or IPO. IPOs have more advantages: greater capital raised, higher returns, local job creation.

Returns

In addition to companies benefitting, VCs and LPs make a profit on their investment. High-quality jobs are created, more capital is available for university research, retirees have more for retirement, foundations have more resources to fund their work.

Re-investment

The fund ends when all investments have been exited and proceeds have been distributed to LPs. LPs can then reinvest earnings in a new crop of funds.

Source: https://ventureforward.org/resources-for-emerging-vc/introduction-to-vc/

FUNDRAISING
VCs raise capital for funds from LPs

Year 5

EXIT
The event where the fund successfully divests its ownership stake in a startup,

Year 1

Year 10

INVESTMENT PHASE

DISINVESTMENT PHASE (EXIT)

INVESTMENT
GPs starts investing capital raised following the investment thesis of the Fund.

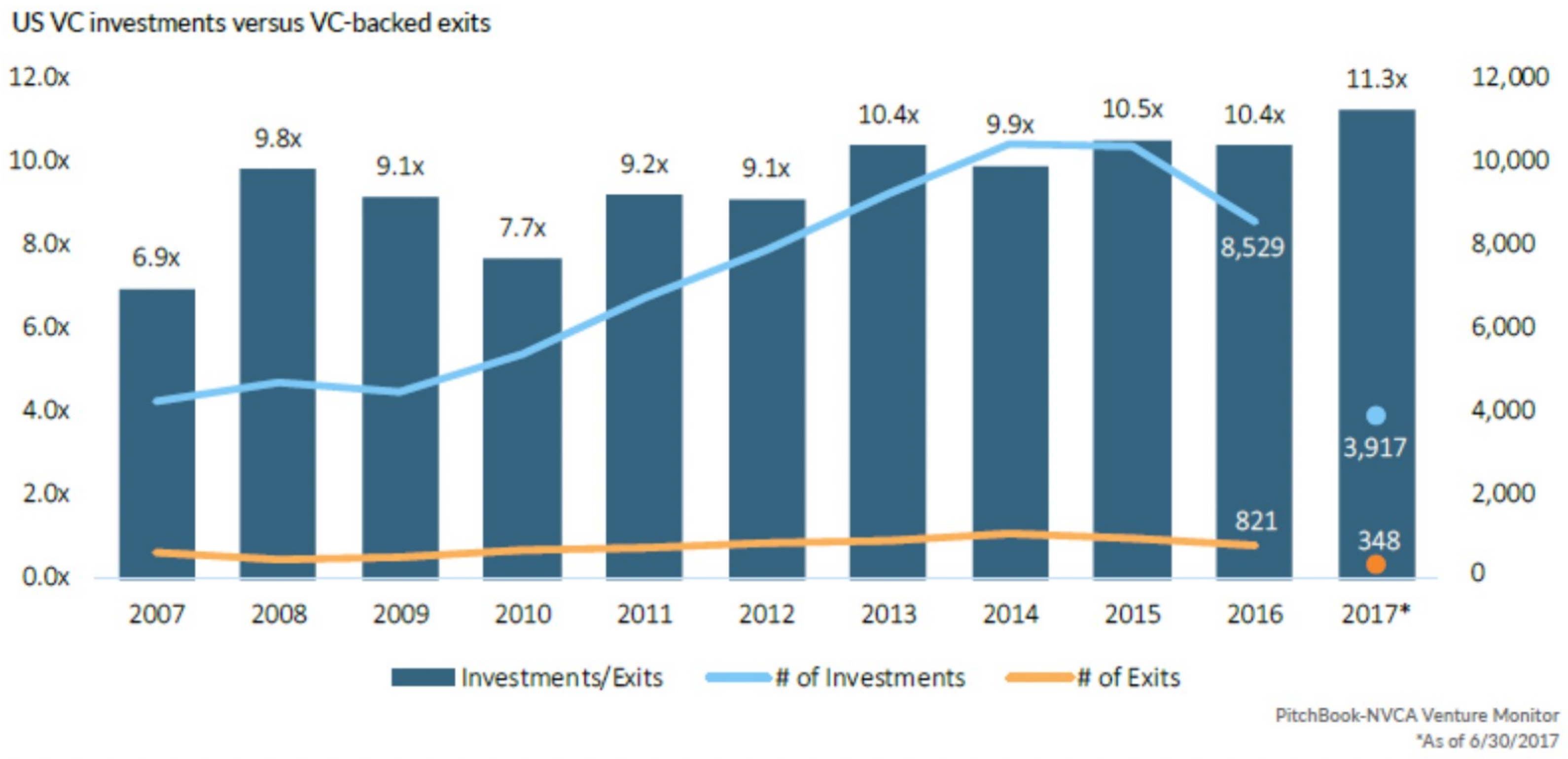
RETURNS
The "returns" phase of closing a fund involves distributing profits to investors

DISINVESTMENT PHASE (EXIT)

1 **Acquisition:**
A common exit strategy for startups involves being acquired by a larger company. This can provide founders and investors with a substantial return on their investment while allowing the startup's technology, products, or talent to be integrated into the acquiring company's operations.

2 **Initial Public Offering (IPO):**
Another exit option is to go public through an IPO, where the startup offers its shares to the public for trading on a stock exchange. This provides liquidity to existing shareholders and allows the company to raise additional capital for growth and expansion.

3 **Merger:**
A startup may also choose to merge with another company, either of similar size or larger, to combine resources, expertise, and market reach. Mergers can result in synergies that create value for both companies and their shareholders


US VC investments versus VC-backed exits
12.0x
10.0x
8.0x
6.0x
4.0x
2.0x
0.0x
6.9x
9.8x
9.1x
7.7x
9.2x
9.1x
10.4x
9.9x
10.5x
10.4x
11.3x
8,529
3,917
821
348
12,000
10,000
8,000
6,000
4,000
2,000
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017*
Investments/Exits
# of Investments
# of Exits
PitchBook-NVCA Venture Monitor
*As of 6/30/2017

START-UP STUDIO

WHAT IS A START UP STUDIO

START-UP STUDIO

A Studio exclusively works with and develops **internally generated start-ups** which are created after an in depth analysis of market needs.

A start-up studio is not an early stage investor; rather, it is the **FOUNDER** of the start-up

START-UP STUDIO

Ultimate goal:

The ultimate goal, much like a venture capital funds, is to reach an exit. Therefore, they base their revenue model on the exits achieved out of their portfolio of start-ups.

Equity:

Since the start-ups are founded by the start-up studios themselves, said studios usually hold significant shares in them.

Management Approach:

They are proper founder in their own right. This approach is called «parallel entrepreneurship»

Operator Model

Examples: Idealab, Science Inc., Human Ventures, Mazamen

IS THE MOST TRADITIONAL AND WIDESPREAD MODEL. IT REVOLVES AROUND THE FIGURE OF THE FOUNDER, WHO IS USUALLY A SERIAL START-UPPER.

- The studio team develops business and product ideas internally, which are later entrusted to co-founders who are recruited when it is necessary.
- During the first few months of operations, the studio’s financial structure usually rests entirely on its investments. The initial capital that the studio invests in a start-up is around 250k, which serves as a «bridge» to move the start-up to a seed Round.

Corporate model

Examples: Stryber, Aimforthemoon

BIG COMPANIES NEED TO EXPERIMENT AND CHANGE IN ORDER TO NOT SUCCUMB TO MARKET CHANGES

- For this reason a corporate start-up studio allows companies to outsource all or part of the desired innovation process by contracting it out to the studio and financing its activities
- These corporations often provide said studios with know-how, distribution channels, IP etc. It allows corporations to benefit from their studio’s innovation process, and do so without disrupting their existing stucture

RESEARCH COMPANIES TRANSFER RESULTS OF THEIR SCIENTIFIC RESEARCH OVER TO THE INDUSTRY THROUGH A SPIN-OFF

Tech. transfer model

What does this mean in practice? Studios based on this model commercialize the innovative projects generated by university research institutes by building companies there are then launched onto the market

Examples: Frunhofer Venture, Max-Planck Innovation, UCLA Anderson Venture Accelerator, FedTech

UNDER THIS MODEL, THE STUDIO COMPLEMENTS START-UP STUDIO CONSTRUCTION WITH AGENCY WORK

Agency model

Examples: Laicos, Rainmaking, Etventure

Advantage:
This allows the studio to generate enough revenue to finance its structure

Disadvantages:
It takes energy, time and attention away from the core business

VENTURE STUDIOS IMITATE THE VENTURE CAPITAL MODEL

Investor model

- A group of investors selects early stage start-ups according to predetermined criteria, helps them along them in their growth phase, and supports them with funding, expertise, and other resources. This reduces the overall investment risk.

Examples: Fj labs, Science Inc.

MARKET APPROACH

VERTICAL APPROACH

Specialization is the most common strategy: **building up specialized expertise and using it to create synergies, while at the same time reducing risk within the portfolio**

Example: E-founders

Sector (Foodtech, Fintech…) | BM (Marketplace Freemium..) | Target (B2B, B2C, B2B2C)

OPPORTUNITY BASED

The key is attracting the best people and the most talented entrepreneurs and choosing from the broadest possible range of opportunities.

This model benefits from the advantage of cross-sector diversification

LET’S LOOK AT THE BENCHMARKS IN THIS SECTOR

FJ Labs Venture Studio

Founded in	2015
by	Fabrice Grinda
Based in	New York
No. Of exits made	263 Exits
No. Of investments	980
Funds	1
Funding Amount	$5.5M
Top Companies	Alibaba, Wish, BlaBlaCar, Uber, Dropbox

FJ Labs is an American Studio, which invests mainly in US, Canada and Europe. Investments are made through a Fund, and 70% of them are in the marketplace sector. They invest in pre-Seed, Seed and Round A, with an average of 400k per round.

LET'S LOOK AT THE BENCHMARKS IN THIS SECTOR

IDEALAB

Founded in	1996
by	Bill Gross
Based in	Pasadena, California, USA
No. Of exits made	50 Exits (10 IPO plus 40 acquisitions)
No. Of investments	150
Funding Amount	$1B
Top Companies	City Search, TicketMaster, eToys, Shopping.com, CarsDirect, Goto

Idealab is considered the first real start-up studio for how the concept is interpreted today. At the portfolio level, they have achieved a 70% start-up success rate, 30% of their start-ups have been listed or acquired, and 5% have become unicorns.

LET'S LOOK AT THE BENCHMARKS IN THIS SECTOR

Science Inc.

Founded in	2011
by	Michael Jones
Based in	Santa Monica, California, USA
No. Of exits made	10 Exits
No. Of investments	80
Funds	3
Funding Amount	$200M
Top Companies	Dollar Shave Club, HomeHero, DogVacay, HelloSociety

Based in Santa Monica, the studio has raised more than $200 million, and, considering its acquisitions, its total funds exceed $1.3 billion. All this has been possible thanks to the creation of three funds ($40 mil in 2011, $75 mil in 2017, and $50mil. In 2020). Such success is based on two pillars: solide expertise in mobile and e-commerce and extraordinary ability to raise funds

BEFORE TO DEEP DIVE, LET'S HAVE A LOOK TO SOME RESULTS

	START-UP STUDIO	VC FUNDS
Exit Rate	16%	8%
Geography	US and Germany	US
Valuation	$74M	$50M
Time for exit	4Y	8Y
IPO/Exit	6.4%	2.0%

2. HOW?

1. START UP STUDIOS: THE ESSENTIAL TEAM

2. MONEY TALKS

3. INVESTOR NETWORK

1. START UP STUDIOS: THE ESSENTIAL TEAM

2. MONEY TALKS

3. INVESTOR NETWORK

What kind of people do you need to form an ideal start-up team?

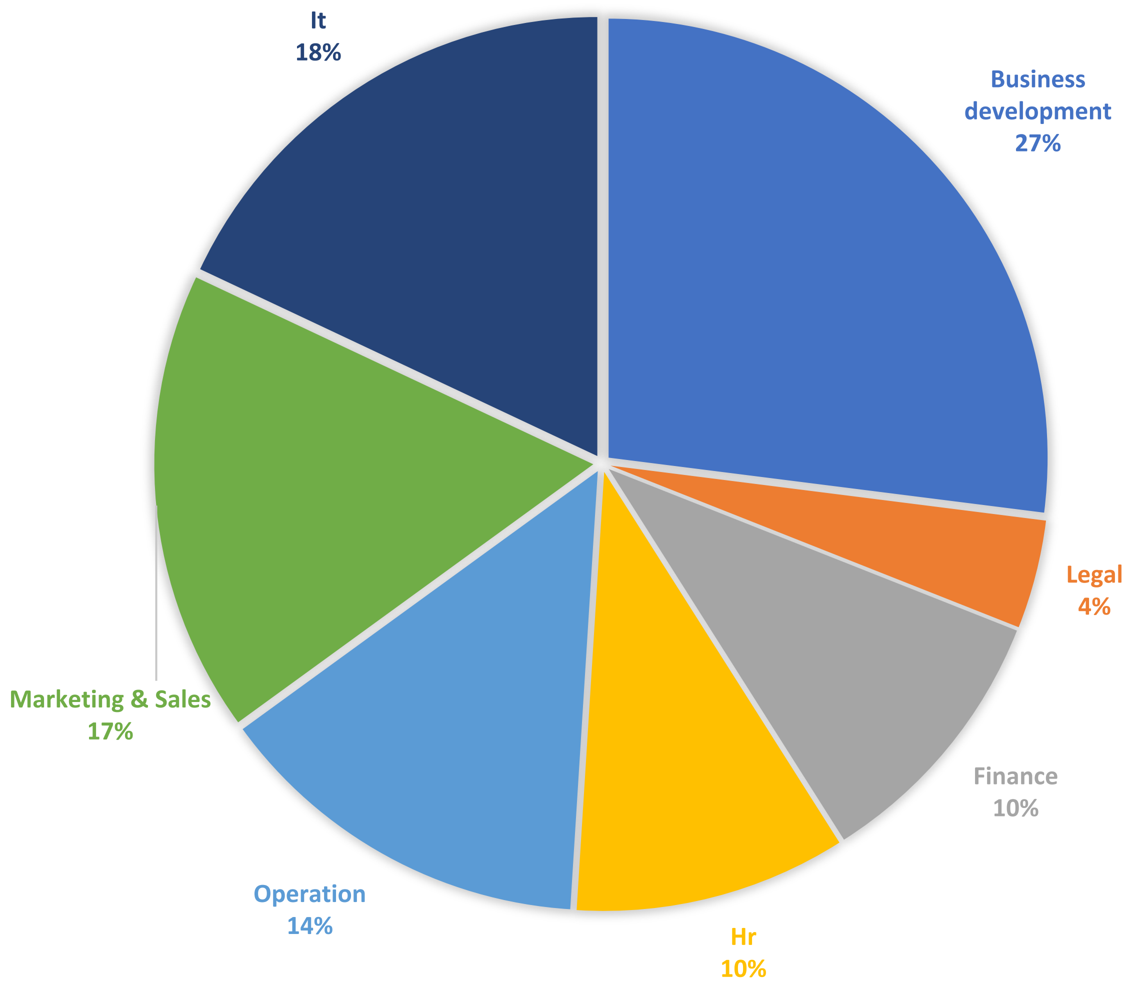
The answer, as always, is «it depends».

But there are **essential roles to cover** in a start-up studio team;
A research conducted into more than 20 European start-up studios, involving more than 800 profiles, shows that, on average, they are composed as follows

N.B.
You need also a good leader; according to StudioHub (2021) **founders** of start-up studio come from:

79% Entrepreneurs
16% Investors
5% Consulting firms

START-UP STUDIOS: THE ESSENTIAL TEAM



1. START UP STUDIOS: THE ESSENTIAL TEAM

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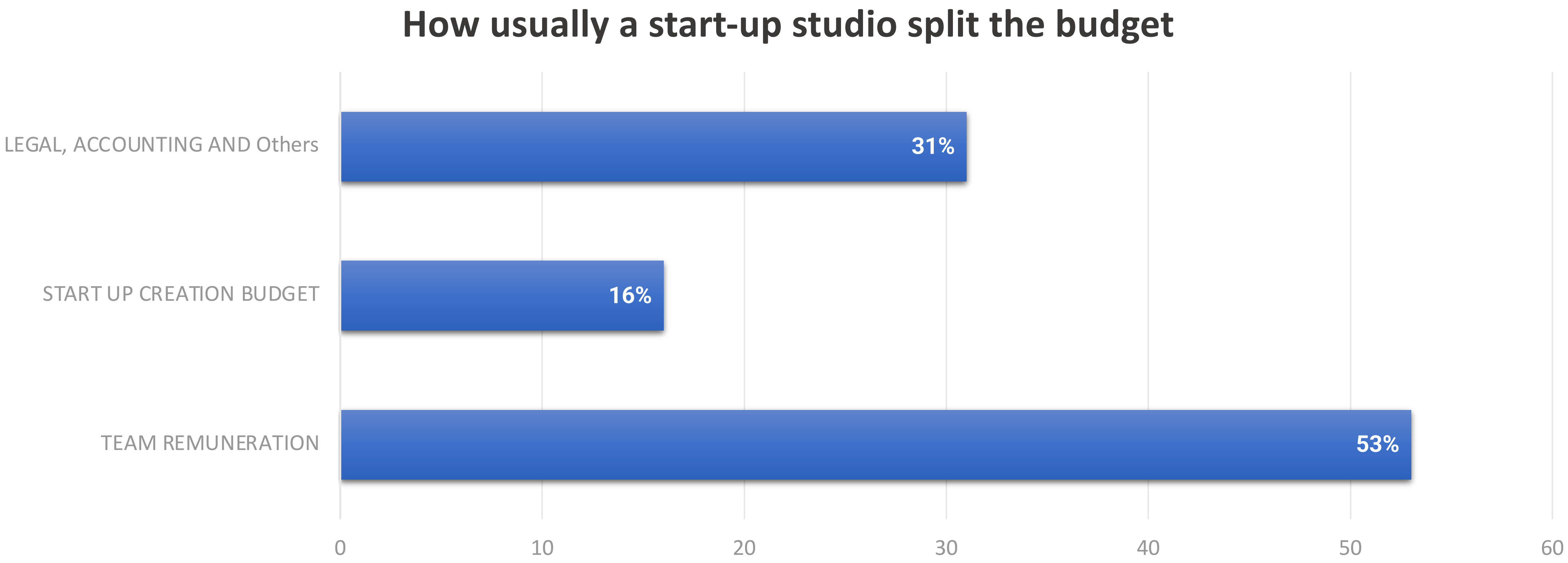
START UP STUDIO: MONEY TALKS

The main expenditure for a studio, about half of the annual budget, is the **team's remuneration.**
Another large slice of the pie is given to **the individual start-ups as initial capital**. This is, on average, about 250,000$ each, or 16% of the budget.
Legal fees, accounting, marketing, etc., account for the remaining 31%.



1. START UP STUDIOS: THE ESSENTIAL TEAM

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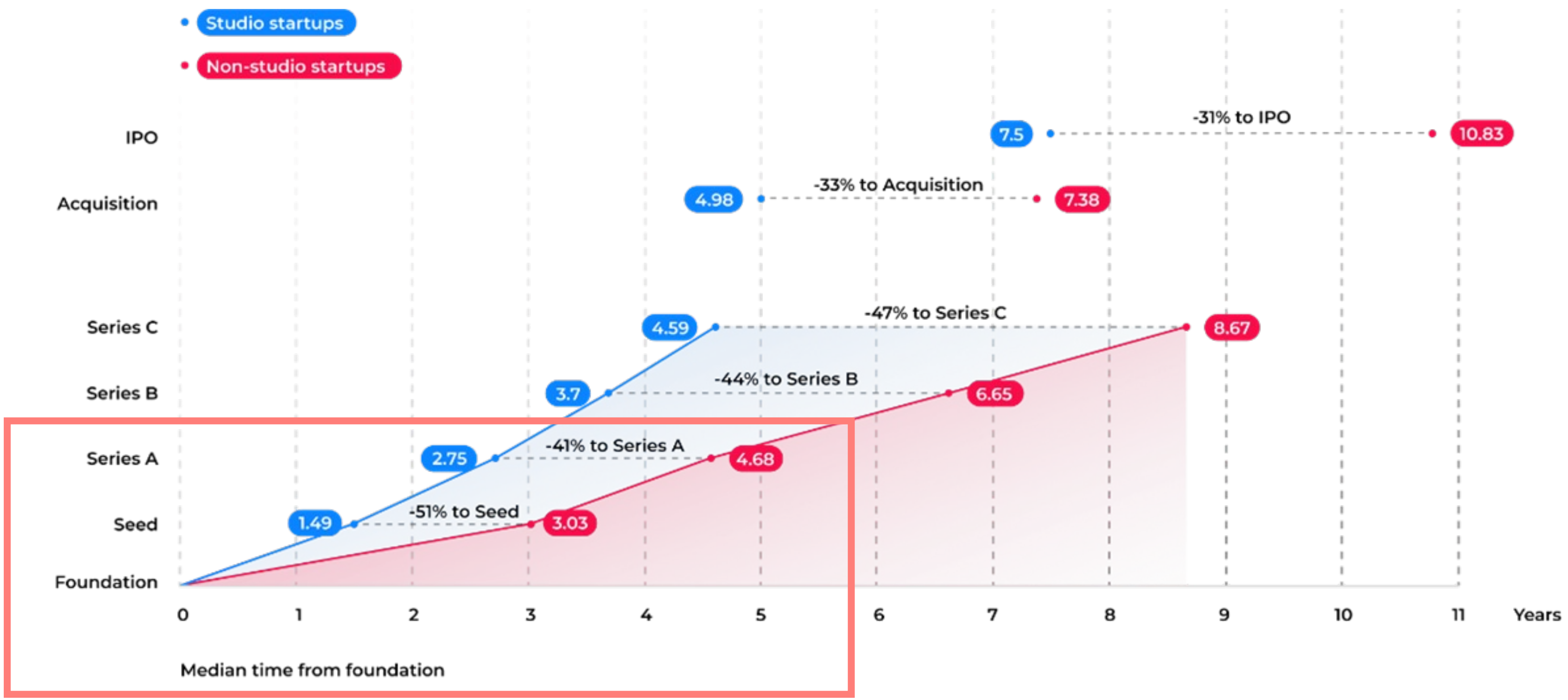
START UP STUDIO: INVESTOR NETWORK



Max Pog's *Big Startup Studios Research*

Studios can also be classified according to how they approach the idea generation process – whether idea generation takes place internally or externally

FISHING IN A SEA of IDEAS

The studio identifies an untapped market niche. From this, the team develops a strategy to meet that unmet need → **Top-bottom**

Bottom-up → **The studio analyses and evaluates external ideas. That is, it selects, invests and supports entrepreneurs in the growth of their start-ups**

Instead of choosing ideas from pre-built projects or unexplored opportunities, the studio builds start ups according to the capabilities of its team → **Team centric**

WE WILL NOW DISCUSS THE STUDIO MODEL THAT PRODUCES START-UPS BASED ON IDEAS AND OPPORTUNITIES THAT ARE UNCOVERED BY THE FIRM ITSELF

Organizational best practices of company builders – a qualitative study. (Gutmann, 2017)

1 Looking for Trouble

The studio defines potential problem.
The team models the business proposal according to user needs, pain points, and proposes solutions.

2 Quality control

Proximity – in line with the studio's strategy?
Feasibility – in line with available tech, knowledge, market access etc.
Potential – is the target market larghe enough?

3 Market Anlysis

Gain in-depth knowledge of the market in terms of customer segmentation, suppliers, competitors, etc. Similar markets should also be analyzed.

4 Data Crush Test

At this point, the hypothetical business idea is evaluated using a data-driven approach

Organizational best practices of company builders – a qualitative study. (Gutmann, 2017)

5 Customer Crush Test

Now that we have defined the problem that we wish to solve, it's time to test our solution on our first customers and collect their feedback.

6 Open the Stable Doors

Once a product is market-ready, the studio founds a new indipendent company, raises capital, acquires more and more customers, and consolidates sales channels so that the scale-up can begin

7 Growth

Start-up has to become indipendent of the studio. The co-founder's responsability increase, while the studio's team gradually whitedraws from decision-making. Mentor relationship continues.

The idea validation process is continously

monitored to create a **viable and scalable BM**

THE MONTH-by-MONTH CREATION PROCESS

	Month 1	Month 2	Month 3	Month 9
Strategy	Define profile of target market	Write Copy Strat Document	Define Brand Values	Draft First Pricing Plan
Product	Review Primary Mock-ups	Set up Tools	Specify MVP	Set up Payment/ Subscription Management Tools

THE MONTH-by-MONTH CREATION PROCESS

	Month 10	Month 11	Month 12	Month 14	Month 16
Marketing		Define/Use Top SEO Keywords and HTML/Meta Tags		Draft First Pricing Plan	Analyze Funnel Performances
Sales	Define Customer support Channels/Tools	Recruit First Business Developer	Choose/Implement CRM	Upgrade/Upsell Active Customers	

IDEA VALIDATION CHECKLIST 1/3

DEFINING THE TARGET MARKET:

- Who is our target customer, and what language should be used to reach them?
- How big is the market, and is it growing?
- Are there any legal or physical barriers that we should consider?
- What options are already available to the customer to solve this problem?
- What is the lifetime value of the customer?
- How much attention does our target pay to product quality?
- How much is our target willing to pay?

IDEA VALIDATION CHECKLIST 2/3

PRODUCT ANALYSIS

- What will the acquisition cost to be?
- How much and how often will we need to pay?
- Will the product require technology that has not yet been developed
- What will the characteristics of the prototype be, and how much will it cost to build it?
- Where will our initial profits come from?
- What is the opportunity cost of building it?
- Why is now the right time to develop your product?
- Has anyone already tried to solve the problem, and if so, how did it go?
- What distinguishes your product from the rest?
- Are there any barriers to entry?

IDEA VALIDATION CHECKLIST 3/3

ANALYZING THE TEAM

- Are you the right people to develop this idea?
- What skills are you missing?
- What profiles do you need to hire?

To generalize: Roadmap to validate an Unmet Needs

PROBLEM | SOLUTION | VALUE PROPOSITION | MVP | LAUNCH

START UP STUDIO – THE PROCESS

Duration						
2 weeks	1 month	2 weeks	3 months	3 Months	6 months	
Brief and Validation	Idea Validation	Team Building	MVP development	MVP testing and Validation	Product Development	Scaling/ Integration

START-UP STUDIO EQUITY SPLIT

THE START UP STUDIO AS THE FOUNDER

50-80% of equity

Co-FOUNDER STUDIO MODEL

30-50% of equity

BUILDER OUTSOURCE STUDIO MODEL

10% of equity

MISTAKES TO AVOID

1. **Lack of studio focus and lack of focus in portfolio construction**

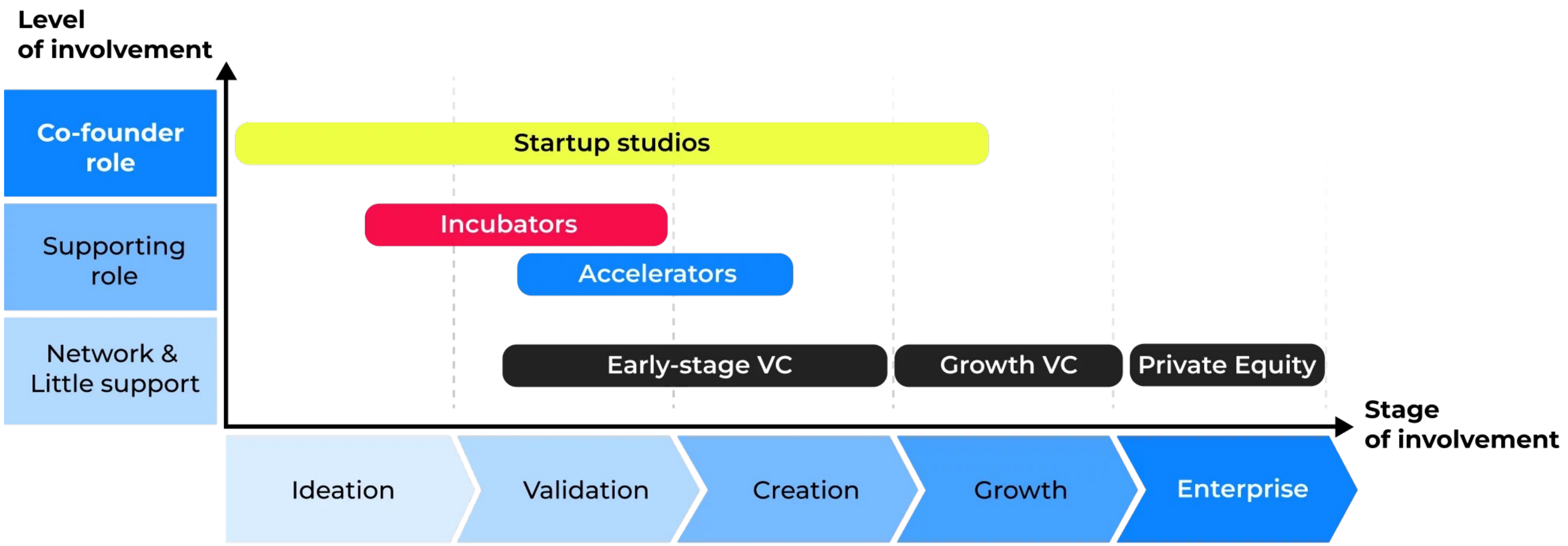
2. **Choosing the wrong founders**

3. **Underestimating the importance of marketing – lack of capital**

APPENDIX 1

Funding Round	Pre-Seed	Seed	Series A	Series B	Series C
Stage Focus	Proof of Concept/ Prototype	Product to the Market	Revenue Growth	Growth	Large Scale Expansions
Common Elements of Growth	Validating & Iterating	Market Entry, First Sales	Development, Operations, Branding & Marketing	Hiring, Market Expansion	International Markets
Amount of Investment	10k – 300k €	100k – 1M €	10M €	15M – 25 €	≈ 50M €

APPENDIX 2



Max Pog's *Big Startup Studios Research*

APPENDIX 3

Startup studio

Equity split?

Depending on the level of support:
- Studio: 20-40%
- Co-founders: 60-80%

Studio founders & team

10-30 professionals: product managers, marketers, engineers, designers, business development managers, analysts, HR manager, lawyer, accountant, investor relations, etc.

12-24 months
of deep involvement

Entrepreneurs
with or without ideas
→ **Ideation** → **Validation** → **Creation** → **Growth** → Spinouts → **3-5 startups a year**

Discovery
$10-100K

Pre-seed
$100-500K

Seed
$500K-2M

Series A
$2-XM

Studio investments + partner syndicates & VC

Why do they join?

1. Faster traction
2. Higher success probability
3. Money, team & niche expertise

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