“Venture Capital” The early source of capital for 6 of the global top 10 companies by market cap

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If you’re not a risk taker, you should get the hell out of business.”
–Ray Kroc, McDonald’s Founder

1. Idea to Institution

Choosing Capital Providers for Scaling your Business

Globally Venture capital-backed business are rising to the top, displacing majors from the league tables, is India ready to do the same? Is the talent behind venture capital driving & delivering accelerated scale up? Are today’s startups in India being nurtured or throttled from scaling the impact they choose to make? What’s the path to building businesses beyond the Founders?

A large part depends on how the Founders, at the very inception, seek to build on their business idea. Is the idea sought to be built-out in a lasting Institution? Setting up an organization that creates the impact on its chosen area through its products and/or its services at scale requires the right Partners along the way. When begun well and when Institutional criteria are incorporated ab initio, they most certainly have a better shot at getting scaled up as well as lasting beyond the Founders’ presence.

Granted, it does take time to build a product (or service) and then take it to market where customers can choose to use and pay for the product. One essential measure of business success is customer traction. Depending on the readiness of the product, it takes time to build a cash-paying customer base. Significant capital will be required to track the changes in customer behavior and fight the competition..

In the gap, between the time customers leave money on the table and the cycle time required to get there, lies the need for Financial Capital. This can be sourced very broadly as Debt or as Equity. The choice to invite an “Outsider” to come in as an equity participant has been subject of endless debate. Founders exercise these choices and are subject to the risk of failure just as much as they fail to hire right people or not get the right customers or vendors. Choosing the ‘right’ capital providers can make or break the journey.

Sourcing Equity Capital to fill the gap

Self-Funded > Stay Private > Source “Outside” > Family & Friends > Angels > Angel Investor Networks > Seed Funds > Venture Capital Funds > Private Equity > Pre-IPO > IPO > Public Markets > Go Private > Stay Private

Get the “Why” capital is sought from the “Outsider” right

If the Founder has no intent to scale the business and would much rather have a boutique offering there is almost never a need to bring in an “Outsider”. Tens of millions of businesses globally have remained sustainable, meaningful and exceptional in what they deliver to their customers and have never needed to invite outside investors. Many a large business as well, have been built over time and sustained over multiple generations without any need for equity capital from outsiders. If the Why is sorted out we can look at When.

Are you ready to get “Outsiders” for accelerating Idea to Institution?

Thinking through the ‘Why’ and the ‘When’ to get an outsider in is critical to alignment of a Founder’s needs with the intent to scale.

2. “When” & “How Much” do you seek Capital for ?

Before or After Driving Customer Capital?

The sweetest form of capital is the one generated from customers. “Customer Capital” or the surpluses left behind by customers in an enterprise, has sustained a number of companies and it is the ignoring of this source of capital that has taken down large organizations too. Aligning a compelling product/service-forward approach with a customer-backward one within the competitive marketplace has always required attention. Choosing a pathway to build customer traction often determines the requirement of Customer-base development and working capital. The choices and dilemmas faced by a founding team are <u>How Fast vs How Slow</u> should you seek scaling up one’s business.

Few to Many Customers

The journey of growing the customer base from <u>Few to Many</u> determines the requirement of capital. Configuring the cost of acquiring new customers, retaining them, growing them and the pace at which the competition does the same makes all the difference in the Financial Capital that will get consumed before generating Customer Capital.

Local to Global

Scaling the business to grow from a hyper-local to global is a good reason to seek capital. Many a technology-led business can now grow at a rapid pace given the common infrastructure it can ride on. To leverage the billions of mobile phone users, the cloud and shared services, often Founders are challenged to try to be global. However, without understanding the cultural context of each local micro-market might trip on estimating when Customer Capital will flow. Global businesses too could take long to build and that would determine the quantum of seek for Financial Capital to bridge the gap.

The Corner coffee house to Starbucks

Enterprises have taken a very old business format such as a corner coffee-house but delivered a similar experience across 27,000 + points across the globe. These tend to inspire Founders to try and replicate those business models. Finding the appropriate capital Partners in this journey is crucial to getting closer to executing the plan. What's important to note is the number of such businesses that had to be shut down for want of business have hemorrhaged a lot of capital. An adage in the Retailing industry must be remembered while estimating capital needs which is "Reach is Cost & Penetration is Profit".

Amazon vs Walmart

Establishing a change in the way customers might adopt a service is often not understood enough and Founders need to get appropriate Capital Partners to stay the course whilst the change is being patiently acted upon. To take an idea that customers will change the way they experience Shopping from Aisles and Queues to Catalogs, from "Just Books and a Few customers" to "Everything for Everybody" took over 20 years. They also needed Capital Partners who related to the vision of the Founder. Most investors did not understand the "Loss" being incurred instead of reading and interpreting it as an "Investment".

Its Now or Never vs. Patiently Over Time

In a world that is going Digital rapidly, instant is the catchword. The word "Disruption" is now treated with respect rather than scorned at. The Time-to-Market@Scale i.e., getting a 100 Million Consumers can now take less than five years. This requires a different form of Talent and Capital Agility. Misaligned capital to back a 'wave' can be detrimental to the building out of an Institution.

3.Great Talent Optimizes use of Capital

Talent lies at multiple organization touchpoints: @Shareholders, @The Non-Executive & @Management

Sourcing Capital: Six of Top 10 Listed companies in the world were Venture Capital backed: Was it the Money or Was it the People

Getting the right set of Capital Partners from the early Angels onward have helped a number of Founders execute their vision. Currently, Six of the Top Ten companies by Market Capitalization have been "Venture Backed", a term now used to associate the source of Capital at the early stage of growing an enterprise. These enterprises occupy a significant share of IPOs and M&As in developed markets. We could see a similar trend emerge in India in the recent times.

There are millions of Sole Proprietorships that if changed to Partnerships could make an amazing impact. This needs to get done by enhancing the Sources of Talent. Talent now lies at multiple organizational scaling touchpoints including the Shareholders, the Non-Executive talent as well as the Executive talent pool. Great talent can optimize use of capital significantly and consequently the need for it can be optimized before customer capital formation gets rolling.

Whilst there is a lot going right for our planet there's plenty of opportunity to fix, alter the *status quo*, optimize for, enhance experience and provide new ways of doing things. Given the significant changes in technology adoption by enterprises and individuals, it is the best time to Partner to scale up the impact that one chooses to make.

Talent Acquisition – "Insiders" & "Outsiders"

Given that Outsider talent can greatly benefit organizational scale, talent no longer needs to be looked at only from the lens of those INSIDE Management. The talent pool that can be accretive to scaling up now comes through an active involvement of Talent in Non-Executive Roles through Advisory Boards for each functional discipline that help getting the "outside-in" perspective through Peer Reviews, Management Audits, Program & Project Management interventions.

Talent at Board of Directors

Bringing on Talent on to the Board of Directors through a combination of Executive, Non-Executive, Independent and Shareholder Nominees can help steer the course of scaling up. Provisioning the governance, risk and corporate responsibility structure can help mitigate losses that arise from not setting hygiene standards early.

Talent in Shareholders – Capital Partners

Just as a Founder chooses a Co-Founder and an Executive Management team to scale up execution, another important source of talent is the Venture Capitalist & their Founders and teams as the Outside-In provider of talent. They can contribute through the team's insights around driving the Founders' role as Shareholders, provide for access to Operational Execution capacity, in building strategic partnerships, and learning from the Partners' roles as Founders or Execution of a particular discipline like Technology, Business or Finance.

4.Choose the *Venture Capitalist* not just Venture Capital

Capital Partners AND Capital Providers for Risk Takers

Venture Capital firms are most often founded by erstwhile

Founders and/or CXOs of firms that have learnt and executed at scale. Their funds are derived from providers of capital to participate at the Early to Growth Stage of enterprises. The risk of failure in this asset class is very high, more so, if the Founders seek to build a disruptive product or service where its possible that its not yet at a stage of “An Idea whose Time has Come”. Aligning the funds from Source to Application from the lenses of Risk, Period and Liquidity become critically important. Instead of saying “we are investing” phrases like its ‘bleeding” or “burning” get used when the capital is misaligned.

Founders in this zone need Risk Interpreters, Risk Insight-providers and not just Risk Takers which they do themselves the best. The Talent behind the Venture Capital can act as a great Outside-In Risk Manager while backing the Risk Taker with the capital required to do so. The Outside-In view given by the venture capitalists’ own journeys, even though it comes with hindsight bias, can be helpful in steering through the journey. True partnership is the appropriate balance is to think with the partner rather than to think like the partner.

Transitioning an Idea to an Institution depends on the understanding that Founders, Shareholders and Management move on as the organization matures and ages. Given that each stakeholder helps build the Institution during the time they spend with it, selecting the WHO plays the role is crucial depending on the stage the organization is at whether at Early stage or post going Public.

In the world of opportunity also lie Volatility, Uncertainty, Complexity and Ambiguity (VUCA.) It is an AND function that the Founders need—Capital Providers AND Capital Partners.