By: Jasmin, Magnus and Tobias

Founder's cases - Notes & theories

Anna & Robert

Resume:
Main question: When to start - early or late?

Anna, Claudio and Jake formed a startup dedicated to algal biomass and using it for energy production - BioEnergy Pro. Anna was at the moment a CBS student taking a master in Organizational Innovation and Entrepreneurship, and had interned for inbocon biomass refinery. Her co-founder Claudio (classmate) had previously worked at Google Italy as a member of the philanthropy division. Jake, a professor at DTU did the research of the startup and functioned as advisor. Thus Anna became CEO of the startup while Claudio became CFO. They were chosen to enter the finals of The World Cup to pitch their business to investors, got beta customers and gained a lot of attention, all while Anna got the chance to gain industry knowledge from a job offering of NOENCO. All leading to the question - What should Anna do?

Applicable theories:

- **The three circles**: Market, personal and career: *Because Anna's personal life with Robert was affected by the startup and she had a lack of industry knowledge*
- **Handcuffs**:
    - Psychological handcuffs: *Claudio was given a C-suite title to incentivize him to stay on board - who would leave a C-suite position?*
    - Legal handcuffs (IP rights): *The professor had done the research at the lab of the university he worked at - they might have the property rights to the product.*
    - Family handcuffs: *Claudio had a family life that forced him to take a less risky career path.*
    - Golden handcuffs: *Claudio was incentivized to stay due to the vesting schedule he was proposed when accepting the position.*
- **Optimism bias and confirmation bias**: *The reason why Anna did not see the possible complications in the business.*
- **Effectuation theory:** *The team used beta-customers to test the product, hence an affordable loss.*
- **Team dynamics**: *A heterogeneous team with different skill sets and a low playing with fire gap.*
- **Beta-customers:** *Anne & Robert had a beta-customer, who possibly wanted to buy their product.*

Doubble

Resume:
A platform business that connects people that want to date. Founding team is CBS student Dennis and he brought on a CTO with many years of experience in web development. The

dating app was originally launched on CBS where it also gained traction. Dennis also advertised the app by launching an event at Hive (a copenhagen nightclub). The team have recently decided to expand to Los Angeles, where they are targeting college campuses.

Applicable theories:

- **Platform business**: *They connect people looking for dates with other people, who are looking for dates.*
- **Financing needs**: *Low financing needs in regards to asset intensity as not a lot of assets are required for the app.*
- **The penny gap**: *How do they monetize? As the platform is currently free it is very hard to get users to pay.*
- **Effectuation theory**: *He turned covid into something good (lemonade). He financed using SU loans and his friends + his mother was an entrepreneur, which gave him an understanding + he used his own knowledge about dating (bird in hand). He could afford to pay back the SU loans + he made a minimum viable product to test on CBS to minimize loss (affordable loss). He found a partner in an angel investor, who originally said no to him (crazy quilt)*
- **Penguin problem**: *As he is a platform business he requires a minimum amount of users to get networking effects to avoid the penguin problem. They used a hyper-local approach by starting out on CBS. They could solve the penguin problem by using a referral strategy of ambassadors in LA. The launch event at Hive is also an example of a supply event.*
- **Optimism bias:** *Dennis couldn't really see any ways how he could fail in the US showing his optimism bias.*
- **Bootstrapping:** *Dennis (Founder) took out SU-loans and used his own money to finance the venture.*
- **Beachhead**: *They chose to pursue college communities in LA, and hoped for a spill-over effect (bowling pin effect).*
- **Minimum viable product:** *The first students at CBS trying the product helped test the minimum viable product and come with feedback.*

Haute & Hunte

Resume:
A flash sale platform business/reseller, distributing overstock for luxury retailers. The venture was started by Vikram at Columbia Business School (engineer), where he also built his founding team. He used due diligence to recruit co-founders from CBS and former colleagues. They sought to have a complementary skillset, but lacked important industry knowledge (which Daniel brought to the table), which resulted in overlapping competencies or a competency discount. Daniel, the only team member with industry knowledge and relations, would eventually leave the company to pursue a career with his family's firm. This showed that Vikram had not applied necessary handcuffs to retain talent.

Applicable theories:

- **Three R's:**
    - *Relationships: They are either a part of the outer- or middle circle limiting the playing with fire gap. Though recruitment from CBS and former workplaces resulted in a competency discount - lack of industry knowledge.*

    - *Roles: The decision-making seems rather of an egalitarian structure (seen when discussing the pursuit of top VC's) with no clear role-split (other than between Arjun and the rest). Though Vikram is declared CEO, which is later reflected in his equity.*
    - *Rewards: Both concerning salary, symbolic rewards and equity. They divided unequally but static, reflecting CEO-premium, and did it through a formal approach (past-, late contributions, opp. cost, motivation.)*
- **Homophily:** *They shared engineering and business management skills disregarding the need for industry knowledge. Competency discount.*
- **Platform business:** *As a platform business they would connect buyers with fashion brands. Pros: Less costly, less logistics, less inventory (low asset intensity). Cons: High CAC, penguin problem.*
- **Reseller business:** *Selling through own warehousing. Pros: Brand, less dependent on partnerships, no penguin problem, more user information. Cons: Capital heavy.*
- **Enequial and static equity split:** *The final equity split reflected CEO premium/idea premium, opp. cost, future contributions, etc.*

GreenFolio

Resume:
An investing platform focused on green investments. Founded by Mikkel, who was frustrated about how hard it was to invest in green stocks. He found two co-founders: Xenia, who designed the website and Pao, who brought in a partner bank. Xenia has a kid and would like to work from home. Pao had to give up a $1 million a year salary to work in the startup.

Applicable theories:

- **Opportunity cost & golden handcuffs:** *Pao had a high opportunity cost of giving up her $1 million a year salary.*
- **Equity split criterias:** *During the discussion you had to consider past contributions (Pao coming with banking network, Mikkel with the idea and Xenia with the website), opportunity costs (Pao), motivations & preferences, future contributions (the discussion of Xenia's commitment)*
- **Homophily:** *Founders were good at avoiding homophily by having different skill sets, academic backgrounds, nationalities etc.*
- **Zeus model:** *To attract VCs they had been told that they had to do a different equity split instead of the even split they currently had.*
- **Anchoring effect:** *Mikkel had anchored the discussion of equity/salary/work hours/mission by sending out an email with a proposal before the meeting. What could we do to avoid the anchoring effect?*
- **Mission drift:** *For Mikkel mission was very important, but Pao was willing for the mission to drift in favor of profitability*
- **Different frames of reference:** *Pao's focus on money vs. Mikkel's focus on mission made it difficult to put down the business model of the company (difference in intangible..)*
- **Vesting schedule:** *Xenia's commitment while working at home could be controlled by a milestone based vesting schedule.*

- **Pareto agreement:** *They were looking to find an agreement where everyone was better off.*
- **The three R's:** *How should the founders be **R**ewarded in terms of equity, salary and working hours?*

Illumin

Resume:
A medical device company producing compression devices to help prevent hair loss during chemotherapy. They need more money and meet up with a woman called Regina at a café, who teaches them about cap tables (and orders a cappuccino).

Applicable theories:

- **Cap table:** *Regina introduced the founders to a cap table and what it was*
- **Convertible note:** *Illumin agreed with an angel investor on a 500.000$ convertible note to fund their animal clinical trials.*
- **Pre-money cap:** *Regina illustrated what would happen if the convertible note had a pre-money cap of $4-million.*
- **Option pool:** *The founder's of Illumin discussed, why it makes sense to have an option pool*
- **Dilution:** *Regina used a cap table to illustrate the process of dilution when taking in new investors*
- **Pre- & post-valuation:** *Regina showed how to use pre- and post-valuations to calculate the amount of equity an investor gets.*

Lovepop

Resume:
Two founder's both from Harvard and with the same naval engineering background founded a company making pop-up gift cards together. They received an offer from an incubator (TechStar) and a seed investor (also an incubator) (Founder.org) and had to compare the offers.

Applicable theories:

- **Bootstrapping:** *The founders started out funding the company using a bootstrapping strategy of their own funds as well as personal bank loans.*
- **Incubator/accelerator:** *They were offered a deal from the incubator TechStars. They were part of he founder.org incubator, which offered online mentoring sessions.*
- **Team homophily:** *The founding team was very homophilous as they had the same academic background, they have the same skills, they might have overlapping network.*
- **POCD:** *In class we rated the market opportunity lovepop was pursuing using the POCD framework.*
- **Comparative dilution:** *Lovepop compared their two offers by looking at what the founder equity post techstar investment would be if the techstar investment was the same size as the founder.org investment*

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Ernit

Resume:
The founders wanted to give children the confidence to deal with real money in a digital world and harness the very latest technology to gain important lifelong skills: how to earn and manage funds – all on their own. The interactive app and attractive piggy bank made the intangible, tangible. The founders initially got money from a Kickstarter campaign and later joined the accelerator techstars. Later they were given an offer from Save & Spend with a term sheet they had to consider.

Applicable theories:

- **Homophily:** *Thomas is a creative technologist and Søren was chief editor at money and personal finance - very heterogeneous team. But a lack of technological know-how.*
- **Playing-with-fire gap:** *Friends forming a business together which leads to a big playing with fire gap.*
- **Equity split:** *Early and equal split to avoid further conflict. Static split - might be a problem if they want to attract talent that could bring technological knowledge to the table - solution could be an option pool. But Søren was the CEO of the company. "A firm handshake" informal.*
- **The three R's:** *Relationship: See above, Roles: Søren was CEO and Thomas was backend developer. Rewards….*
- **IP rights in place:** *They secured that the name would not give them any possible copyright issues.*
- **Bird-in-hand:** *Parents themselves.*
- **Accelerators:** *Techstars*
- **Term sheet**

The Juice Guys

Resume:
Two guys from Nantucket set up a 7-eleven like business sailing around in the harbor and later turned it into a store. They found great success in selling their juices (which one of the founders came with the idea for after a trip to Spain) "Nantucket Necktars". They were offered deals by Pepsi, Triarc and Ocean Spray.

Applicable theories:

- **Acquisition:** *Nantucket nectars had to decide who they wanted to get acquired by.*
- **Comparable acquisitions:** *When valuing Nantucket Nectars we used the comparable acquisition strategy to value the company.*
- **Term sheet:** *A big part of deciding what company they wanted to get acquired by was the term sheet. In the end they also got a big pay-out because in their term sheet it said their earn-out would be paid out no matter, what if the company acquiring them got sold, which it did.*

- **Strategic buyer:** *Pepsi wanted to buy Nantucket Nectars because of strategic reasons.*
- **Cash vs. earn-out:** *When deciding what offer they wanted to take Nantucket Nectars had to decide what split between cash and earn-out they wanted to take.*
- **King vs. rich:** *How much control did they want to give up? They were afraid Triarc was going to Snappelization them and drop all of their distributors like they did with Quaker on Snapple. The culture in their firm was also very important for them.*

Donkey Republic

Resume:
Donkey Republic is a Danish bike sharing company operating a MaaS model out of several cities across Europe. The team wanted to go public on the Danish stock exchange and had to learn about the different processes included when learning about doing an IPO.

Applicable theories:

- **Egalitarian structure:** *The founders of Donkey Republic liked to have an egalitarian structure in the company.*
- **IPO:** *The entire case is about Donkey Republic doing an IPO on the Nasdaq First North stock exchange.*
- **Team dynamics:** Heterogenous