PORTWIMS H2020 SUMMER SCHOOL

BLUE GROWTH, INNOVATION & ENTREPRENEURSHIP

Lisbon, 20th to 24th June 2022
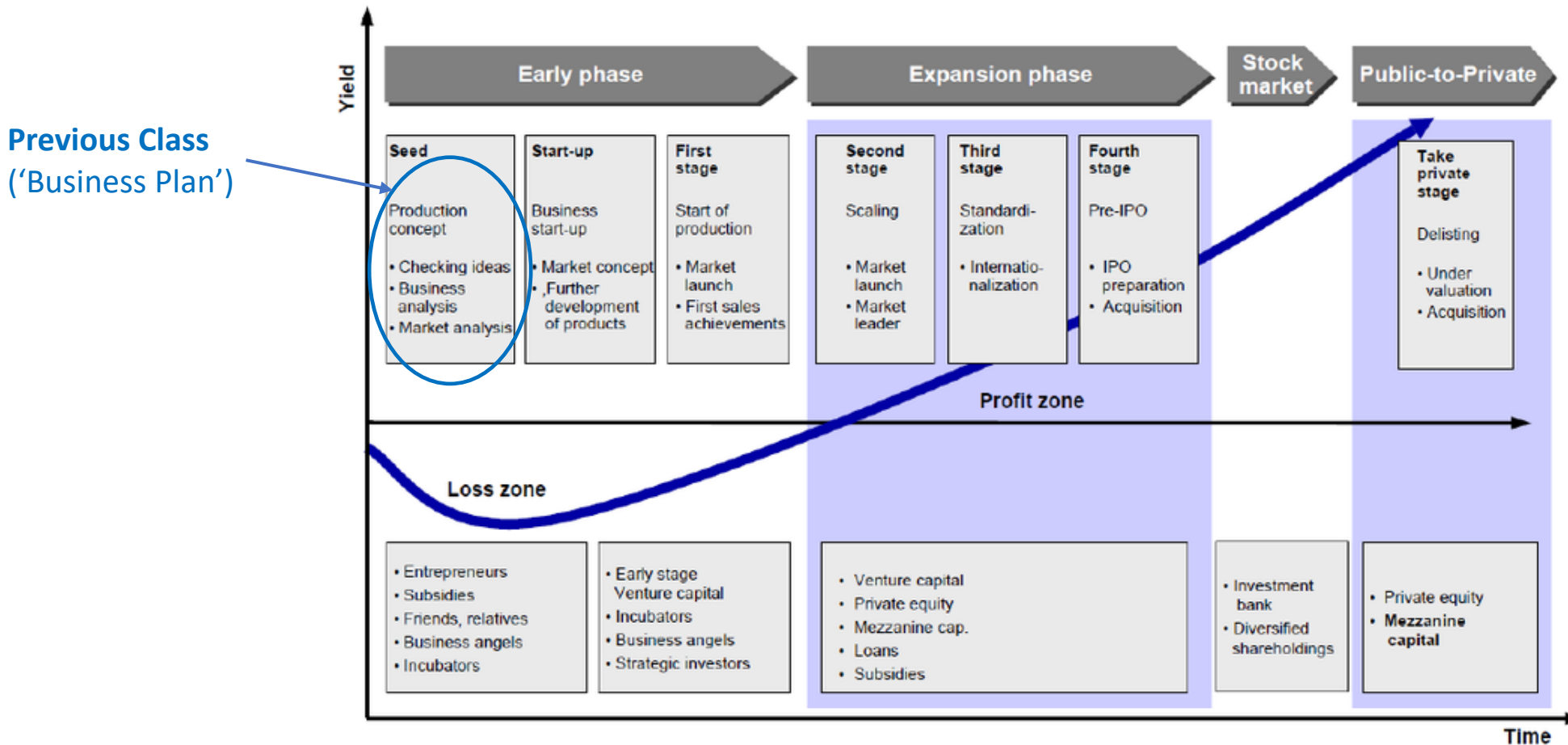
Risk Analysis

Gonçalo Osório, Crowe Advisory   23 June 2022

Life-Cycle of a Firm and Stages of Financing

Risk perspective from an Investors' point of view

Previous Class
('Business Plan')

Source: SaeR

Life-Cycle of a Venture & Stages of Financing
Early Phase of a Firm zoomed-in
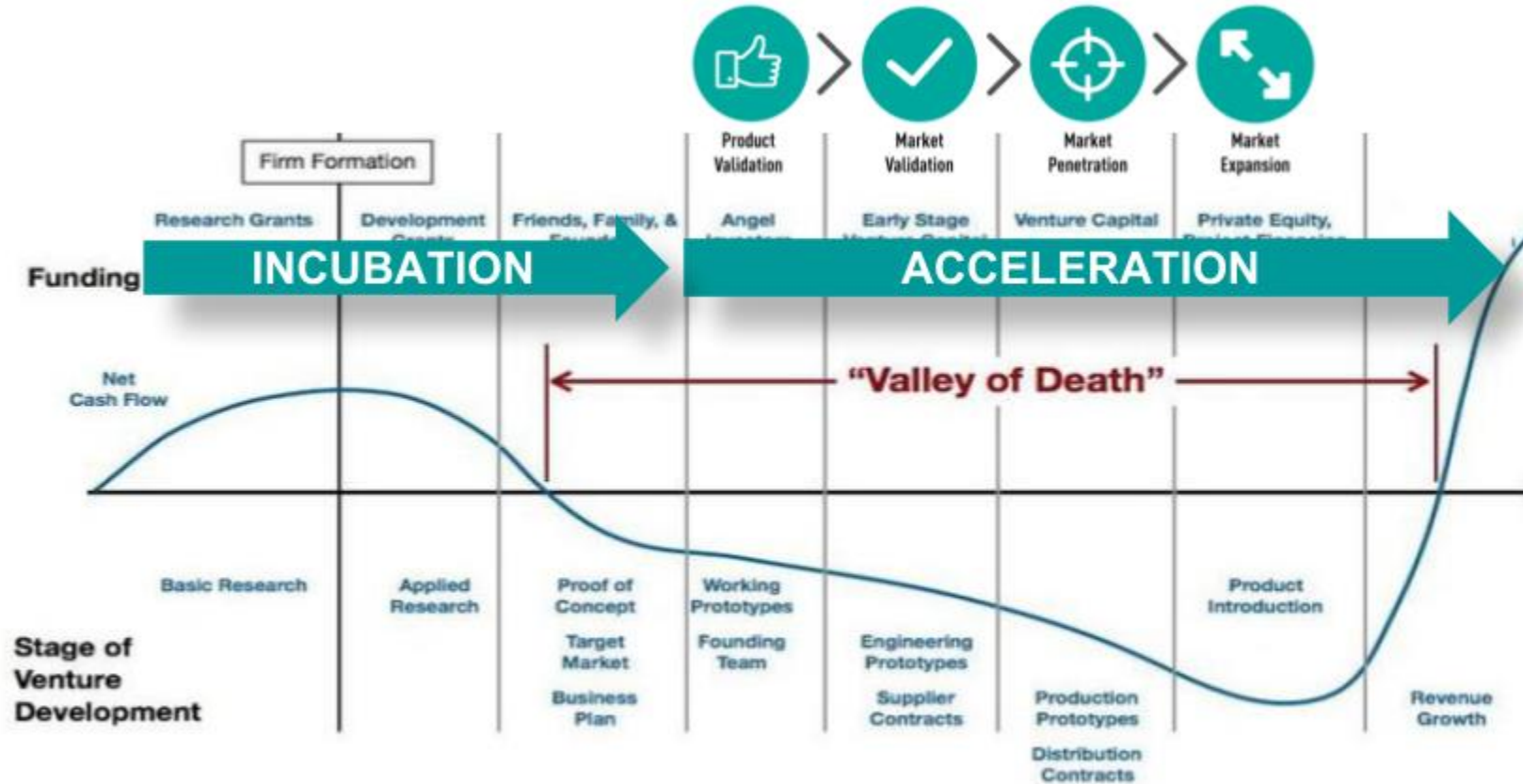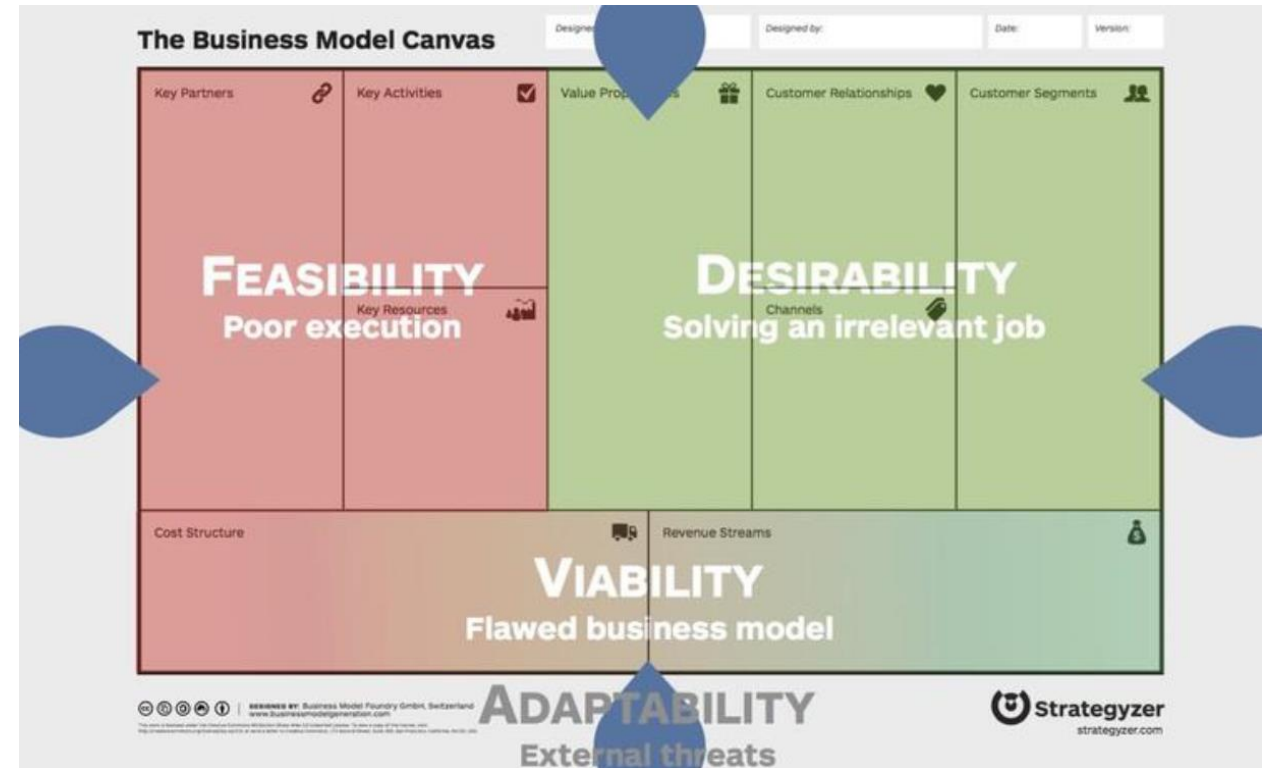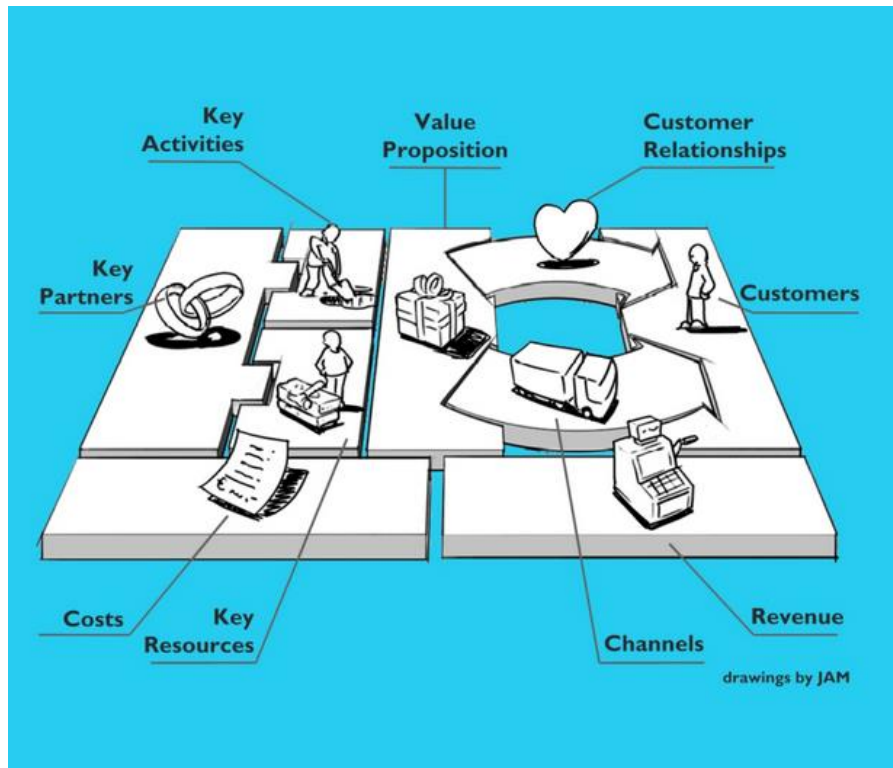
How to Approach the Investor Community

Business Model Canvas as a Risk assessment tool

- From Business Model Canvas, one can derive valuable clues in what concerns the **viability**, **feasibility**, **desirability** and **adaptability** of a startup business, all of those being important risk parameters that investors will be keen to analyze

Source: Alexander Osterwalder

How to Approach the Investor Community
Typical investor mindset (through life-cycle)

Startup maturity level

	Conceptual: Early stage pre-startup	Launch: Early stage/ Startup Infancy	Startup: Increased credibility	Venture growth: sustainability & scalability	Mature venture/SME/ Later stage
Maturity	Concept/idea	Idea launched	Operational efficiency, potential to scale	Significant traction, scalability, operational efficiency	Established market position, scalable growth
Problem/solution fit	in progress	being optimized	validated	validated	validated
Market fit	Not yet	in progress	x	x	x
Business Model	conceptual	in progress	x (validated and repeatable)	x (validated and scalable)	x (optimization)
Team	< 5	2+	Optimized team	Growing team	Growing team
Return		Typical time: 5+ years Typical size: 10x		Typical time: 3+ years Typical size: 2-3x	
Investment size	•	••	•••	••••	•••••
Investment risk	•••••	••••	•••	•••	••
Customers	<20 customers Customer segment unclear	20+ customers Focused target customer segment	50+ customers Fast growth	100+ customers with info on retention rates	250+ customers

Source: Board of Innovation

How to Approach the Investor Community

Typical investor mindset (rating/ scoring)

	PRE-SEED	SEED	SERIES A	SERIES B
TEAM	60%	45%	30%	20%
MARKET	10%	10%	10%	10%
PRODUCT & BUSINESS MODEL	10%	15%	20%	15%
TECHNOLOGY	5%	10%	10%	10%
SCALABILITY	10%	10%	15%	20%
KPIS	5%	10%	15%	25%

Score all factors mentioned on the side table for your specific company (from 1 to 5)

Justify each score with the main supporting arguments.

VAAA – Very Strong company (Top 5%) within a certain industry, stage and region.

VAA – Strong company (Top 10%) with a certain industry, stage and region.

VA – Above Average, above a rating of 3,5

V – Average, in line with comparable startups (average).

VR – Very Risky, key value drivers are considered weak

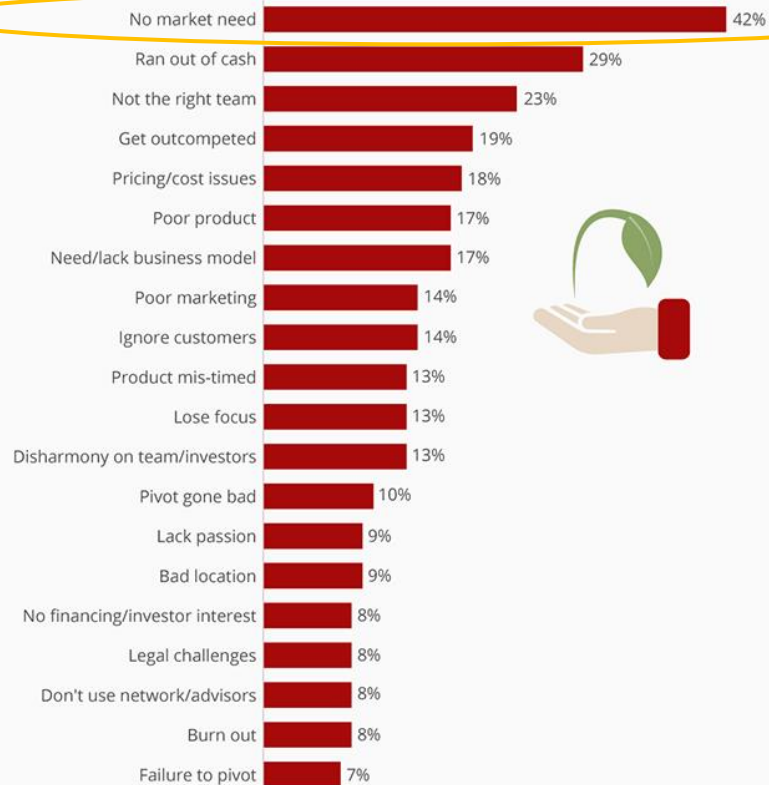**ER** – Extremely Risky, investors would be advised to not invest at all.

Source: Venionaire Capital

How to Approach the Investor Community
Know the pitfalls & address the challenges

The Top Reasons Startups Fail
Most frequently cited reasons for startup failure*

Reason	%
No market need	42%
Ran out of cash	29%
Not the right team	23%
Get outcompeted	19%
Pricing/cost issues	18%
Poor product	17%
Need/lack business model	17%
Poor marketing	14%
Ignore customers	14%
Product mis-timed	13%
Lose focus	13%
Disharmony on team/investors	13%
Pivot gone bad	10%
Lack passion	9%
Bad location	9%
No financing/investor interest	8%
Legal challenges	8%
Don't use network/advisors	8%
Burn out	8%
Failure to pivot	7%

* Based on an analysis of 101 startup post-mortems
@StatistaCharts Source: CB Insights

statista

- **∑ = 300%**
  - → In average, 3 factors leading to failure of Startups

- Main (Single) Reason:
  - → No Market Need [42%] | Market Study/ Customer Develop.

- Main (Group of) Reasons:
  - → Management Skills [144%] | Professional Development
  - → Market Forces (Demand) [52%] | Market Study/ Cust. Dev.
  - → Market Forces (Supply) [44%] | Market Study/ Lean Startup
  - → Personal Reasons [43%] | Personal Development

Source: CB Insights, Statista

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How to Approach the Investor Community
Presentation of the Team *(Management, Key team members, Network of partnerships)*

- Highlight the **specialized knowledge** of the Management Team and/or other key team members or partners

- Demonstrate a plan for contribution of more **general management skills** (if to be contributed by external parties, which ones and what is the status of engagement)

- Present the company's **own operating structure** and the **ecosystem of partnerships/ alliances** it is building up to be capable to deliver on market needs

- Demonstrate the **StartupNation's '9 Essential Skills** You Need to Start and Run a Successful Business':

  → Financial literacy

  → Effective marketing skills

  → Tech-savviness

  → Strong communication skills

  → Ability to have a positive attitude (even when things are stressful)

  → Smart employee delegation

  → Effective leadership

  → Strong time management

  → Ability to negotiate (for the good of your business)

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How to Approach the Investor Community
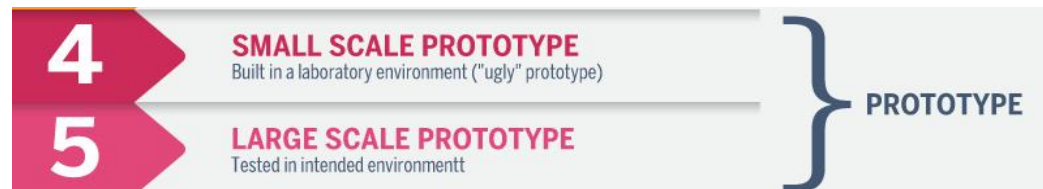## Conducting Market Research and Presenting the Market Study

- Market Research: gather information on customers and the market as a whole to determine a product or service's viability, namely via:

  - ✓ Interviews
  - ✓ Surveys
  - ✓ Focus groups
  - ✓ Industry data analyses

→ **Primary Research:** based on the specific target customers or market segment an entrepreneur/ startup business aims to attend

→ **Secondary Research:** based on external data sources (industry reports, public databases, and other companies' proprietary data) with wider applicability but also useful to gain insight into the target market segment and industry

- Goals: Determine market size, competitive landscape, brand/ product awareness in relative terms to other market participants (coming mainly from secondary research), and also gather insights into customer satisfaction and loyalty, their brand awareness and perception, and real-time product usability and experience (coming mainly from primary research)

- Other advantages: Feedback/ insight from the customer base allows for Product/ Service improvement, Pricing fine-tunning, among other

- Conclusion: In approaching investors, **provide tangible proof that your product fulfills a market need** and **demonstrate you have** taken the time to iterate with your customer base/ target demographics and **gathered valuable feedback to factor into your product/ service improvement process**.

Source: Harvard Business School

How to Approach the Investor Community

Product Presentation/ Stage of Development *(from Idea to Production)*

TRLs – Technology Readiness Levels:

0 IDEA
Unproven concept, no testing has been performed

1 BASIC RESEARCH
You can now describe the need(s) but have no evidence

2 TECHNOLOGY FORMULATION
Concept and application have been formulated

3 NEEDS VALIDATION
You have an initial 'offering'; stakeholders like your slideware

} IDEA

6 PROTOTYPE SYSTEM
Tested in intended environment close to expected performance

7 DEMONSTRATION SYSTEM
Operating in operational environment at pre-commercial scale

} VALIDATION

4 SMALL SCALE PROTOTYPE
Built in a laboratory environment ("ugly" prototype)

5 LARGE SCALE PROTOTYPE
Tested in intended environmentt

} PROTOTYPE

8 FIRST OF A KIND COMMERCIAL SYSTEM
All technical processes and systems to support commercial activity in ready state

9 FULL COMMERCIAL APPLICATION
Technology on 'general availability' for all consumers

} PRODUCTION

Technology Readiness Levels as adapted by the CloudWATCH2 project

Source: SaeR

Thank you!