



# Entrepreneurship & Capital: the Engines that Power an Economy Forward

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3 November 2011  
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~~Haslett, MI, USA~~

# Entrepreneurship & \$

## The Joy of Entrepreneurship

[http://www.youtube.com/watch?v=T6MhAwQ64c0&feature=player\\_embedded](http://www.youtube.com/watch?v=T6MhAwQ64c0&feature=player_embedded)

## Where Good Ideas Come From

<http://www.youtube.com/watch?v=NugRZGDdPFU&NR=1>

# Entrepreneurship & \$

Entrepreneurship & \$: The Engines that Power  
an Economy Forward

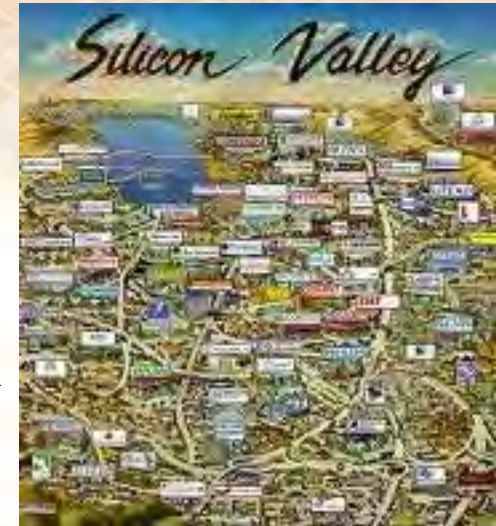
MIA: take your money

<http://www.youtube.com/watch?v=7sei-eEjy4g>

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Google code



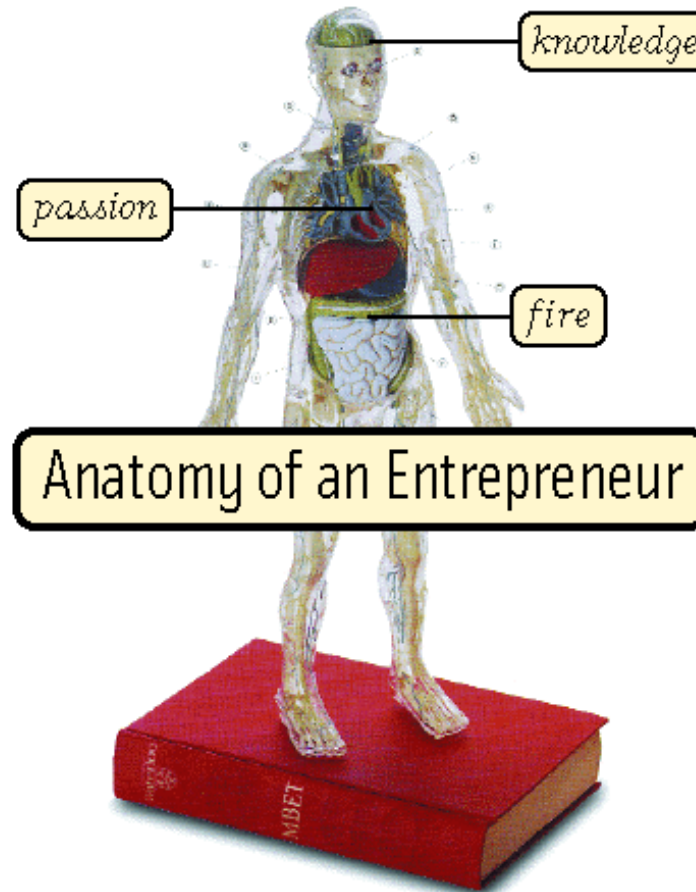
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# Topic #1: Entrepreneurship



# Topic #2: History of VC





# Topic #3: VC in the World



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# Topic #4: How Venture Capital Works



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# Topic #5: Building a Management Team of Glory

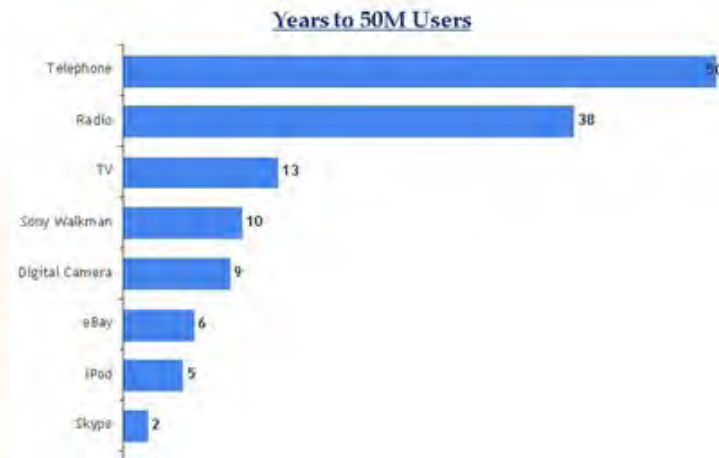
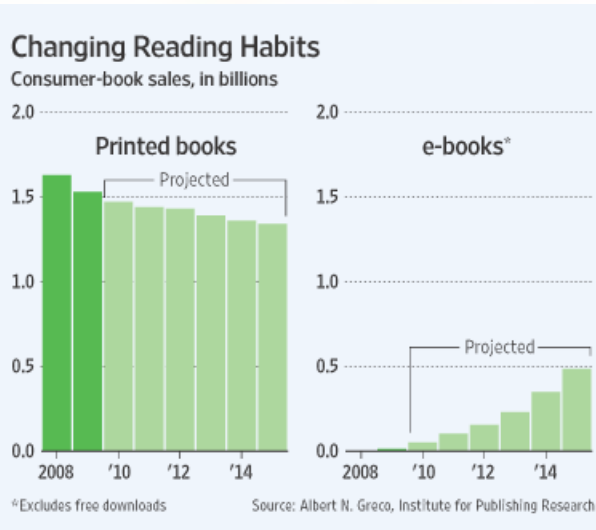


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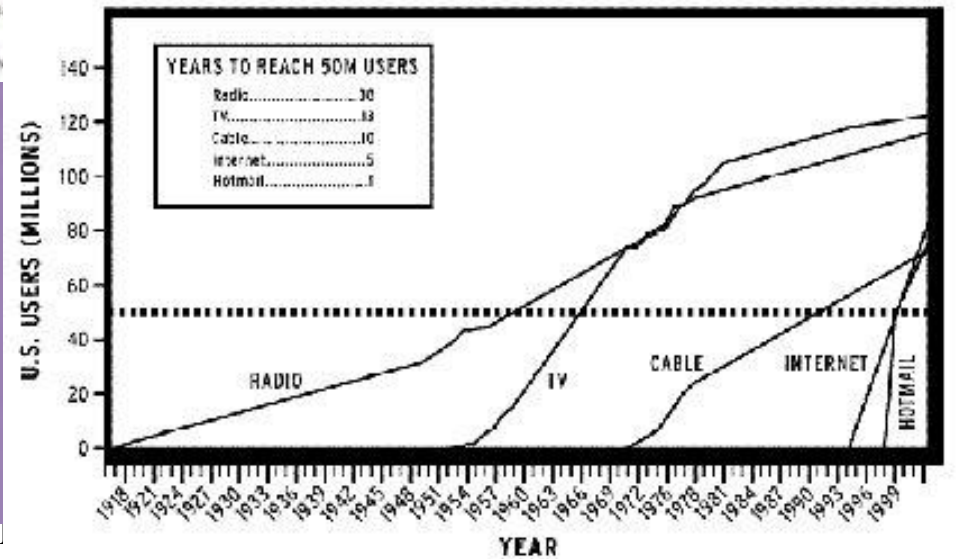
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# Topic #6: How Ideas Spread as Viruses

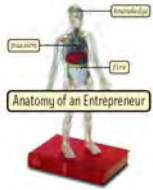


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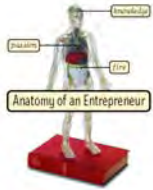
# Topic #1: Entrepreneurship



## Test: Knowledge of Entrepreneurship

<http://yalepress.yale.edu/yupbooks/entrepreneurshipquiz.asp>





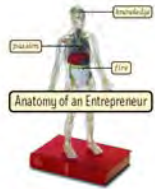
# Topic #1: Entrepreneurship

What is Entrepreneurship?

How can/should it be defined?

# Topic #1: Entrepreneurship

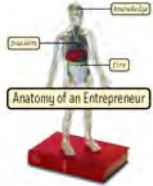
## What is Entrepreneurship?



It's a process

- High uncertainty, many start-ups happen by accident
- A means for people (dreamers?) to achieve their goals
- To create something where it did not exist before, to create some good, to fix something broken

# Topic #1: Entrepreneurship

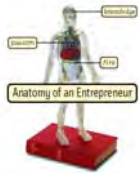


- Requires determination & perseverance since nothing goes to plan
- Live with uncertainty, isolation, lack of progress, most of all, rejection



“Don’t worry about people stealing your ideas. If your ideas are any good, you’ll have to ram them down people’s throats.”

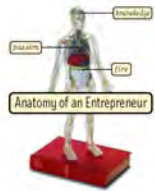




# Topic #1: Entrepreneurship

## Traits & Characteristics of Entrepreneurs

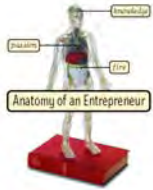
- Passion vs. Money?
- Realize Goals vs. Make Dreams Come True?
- Born or Made?
- Control vs. Letting Go
- Planning vs. Execution



# Topic #1: Entrepreneurship

## Passion vs. Money?

- Motivation is to improve things, solve an existing problem, create some good
- Get rich as a result of the passion
- Wanting to be rich doesn't create the passion
- Differences in Culture: China vs. US, Accel VC

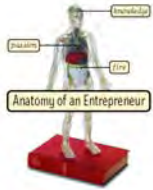


# Topic #1: Entrepreneurship

## Realize Goals vs. Dreamers?

- Cannot reach their goals through other means
- As they implement, they have the feeling, the hunch that this thing might be bigger than they imagined
- Create products and services that create new markets

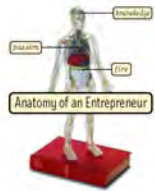




# Topic #1: Entrepreneurship

## Born or Made?

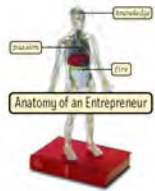
- A little of both
- Combination of following instincts & an environment that developed their talents



# Topic #1: Entrepreneurship

## Control vs. Letting Go

- Have control & not at the same time.
- Adaptable since what users want change as do plans.
- Trial & error-change their ideas as they develop them to give users what they want.
- Deal with rejection early on; the most fragile time.



# Topic #1: Entrepreneurship

## Planning vs. Execution

- Attitude & energy for action
- Have a general idea of the direction they are headed
- Adapt not plan
- Strategy is a discovery process vs. a planning process

# Entrepreneur's Work Philosophy

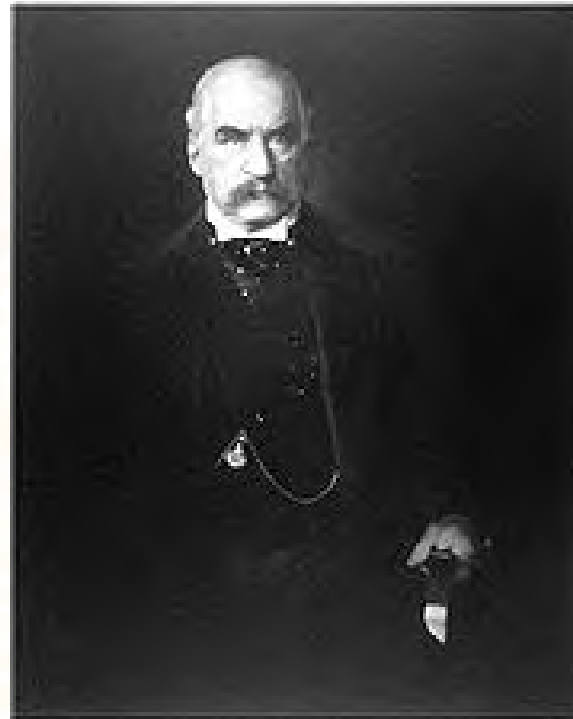




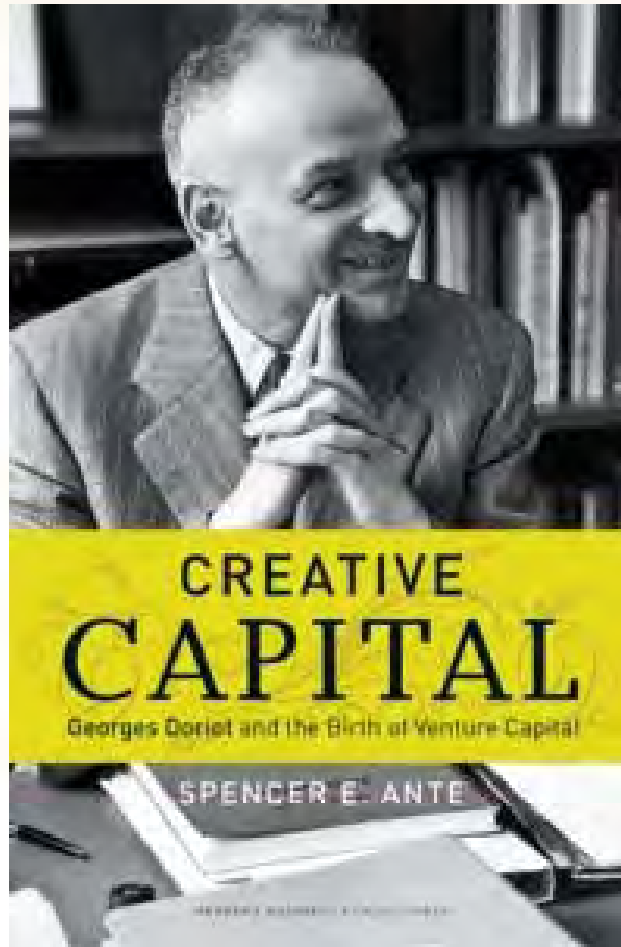
## Topic #2: History of VC



# Topic #2: History of VC



# Topic #2: History of VC



**digital**

Invested \$70k (1957)

ROI: \$377MM (1968)

IRR: 101%

In \$1999-\$2010: \$415k=\$2.4 Billion

# Topic #2: History of VC



## 1969: Pension Fund Reform







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# Topic #2: History of VC



Microsoft



Invested \$57k (1978)

ROI: \$14MM (1981)

IRR: 23,000%

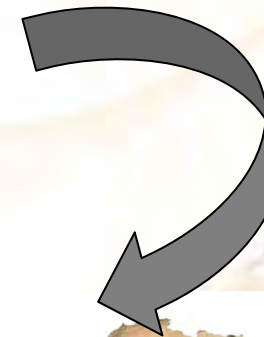
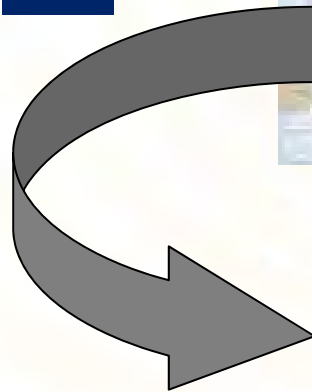
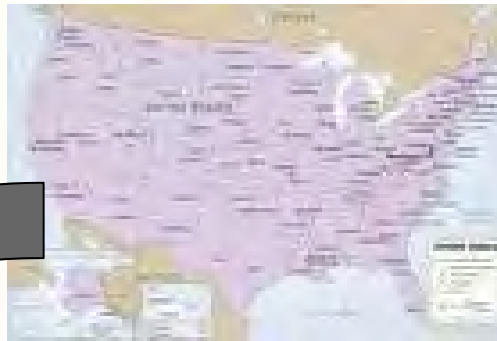
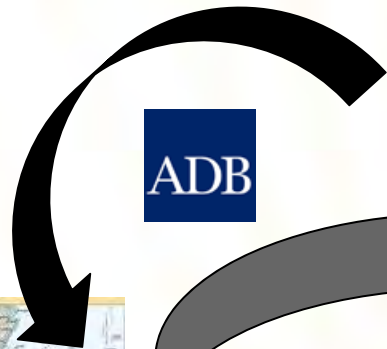
In \$1978-\$2011: \$195k  
(2008)=\$35 million (2011)



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# Topic #3: VC in the World



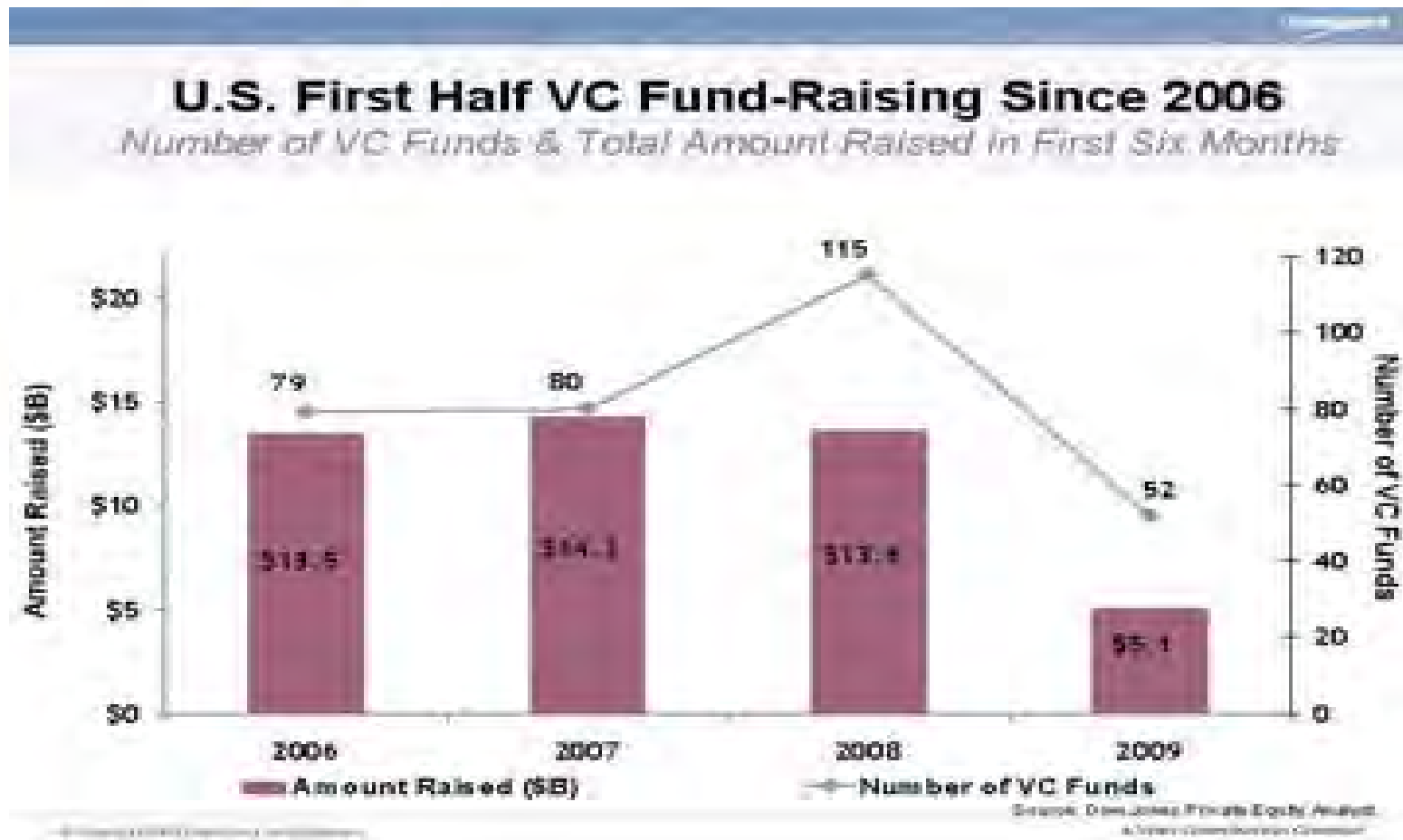
# Topic #3: VC in the World



## Internet & New Economy Business Models

- 1999 Vintage Funds Returned 150%
- Momentum & Greed replaced common sense
- Business Plans Funded without thorough Analysis of their Weaknesses
- 1<sup>st</sup> Mover = 1<sup>st</sup> Loser

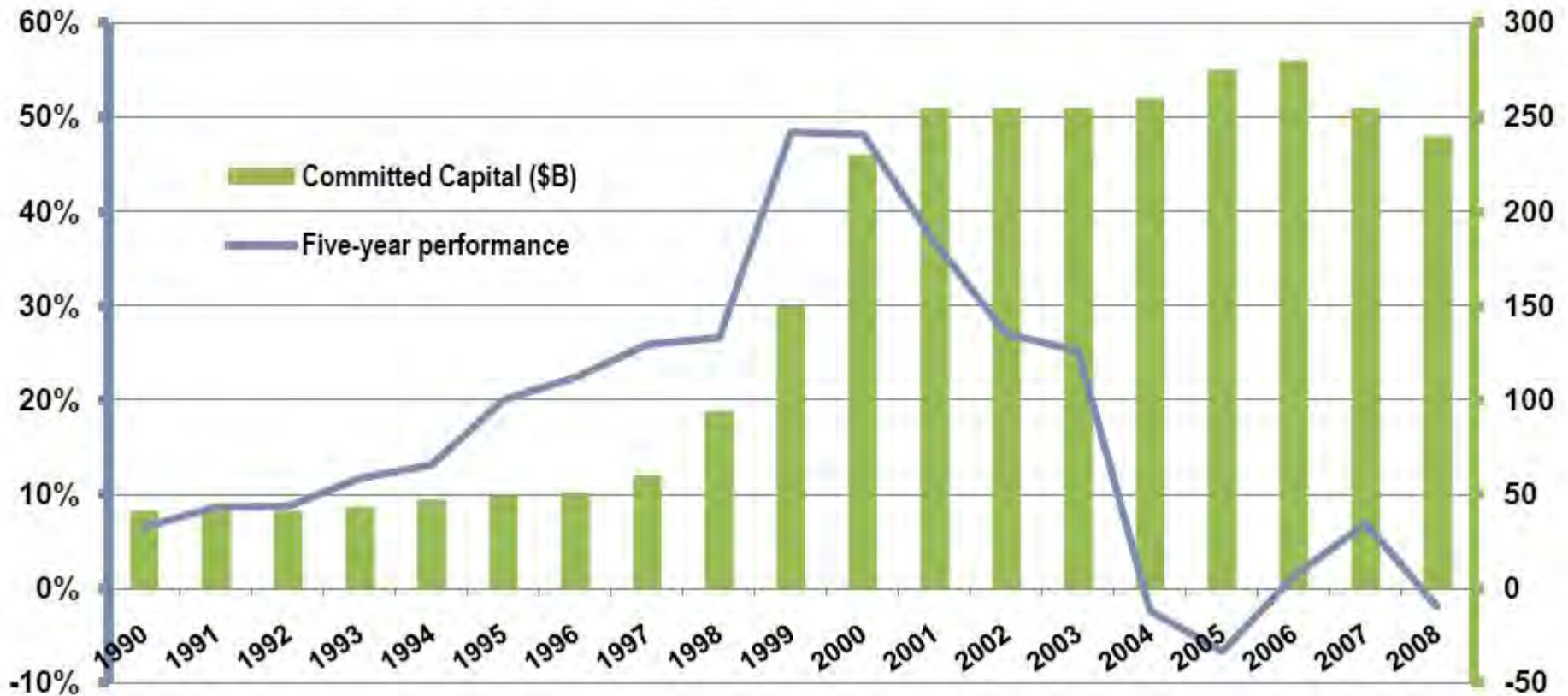
# Topic #4: How Venture Capital Works





# Topic #4: How Venture Capital Works

Venture Capital Performance vs Committed Capital: 1990–2008



Source: National Venture Capital Association Yearbook 2009.

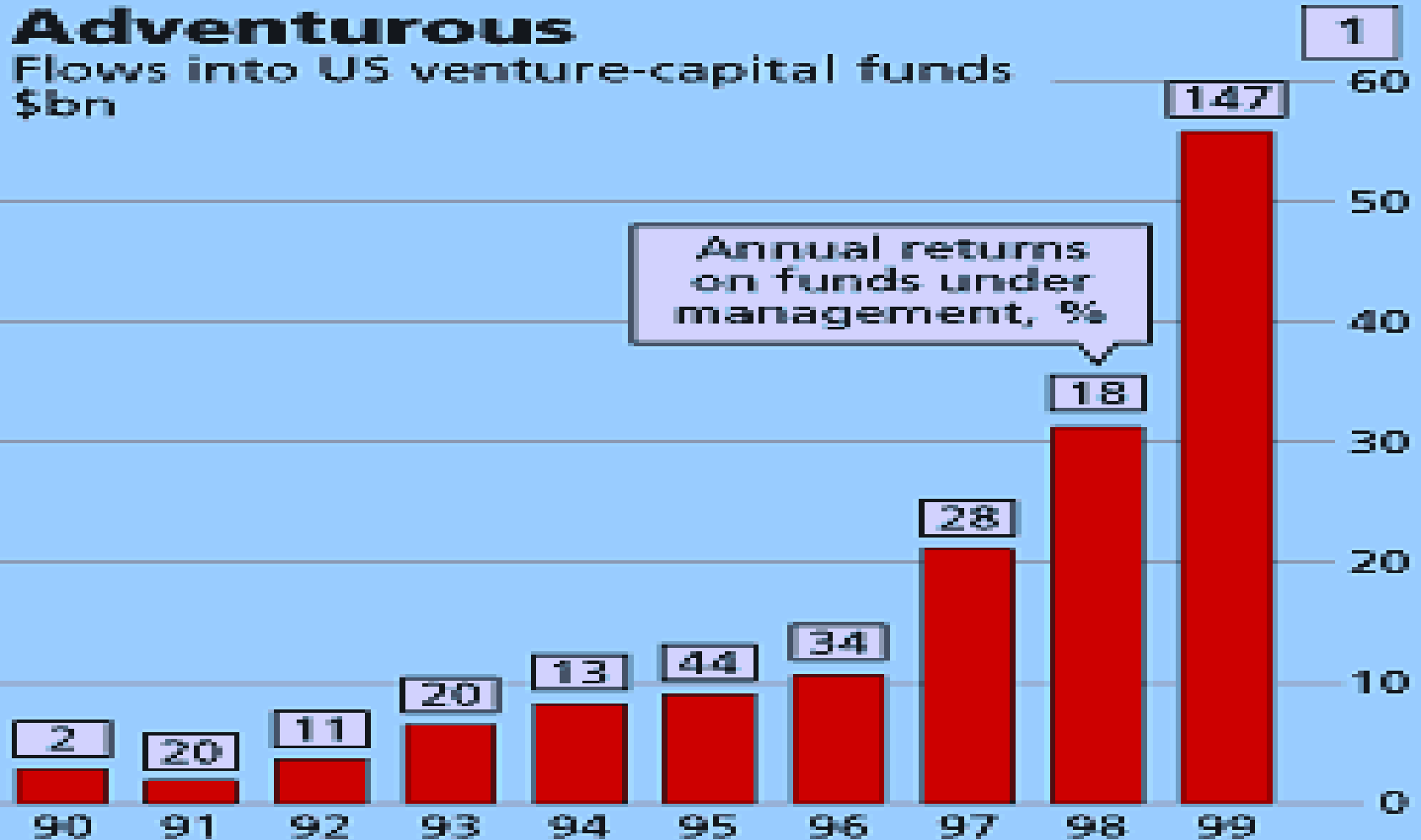


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# \$ Flows into VC

## Adventurous

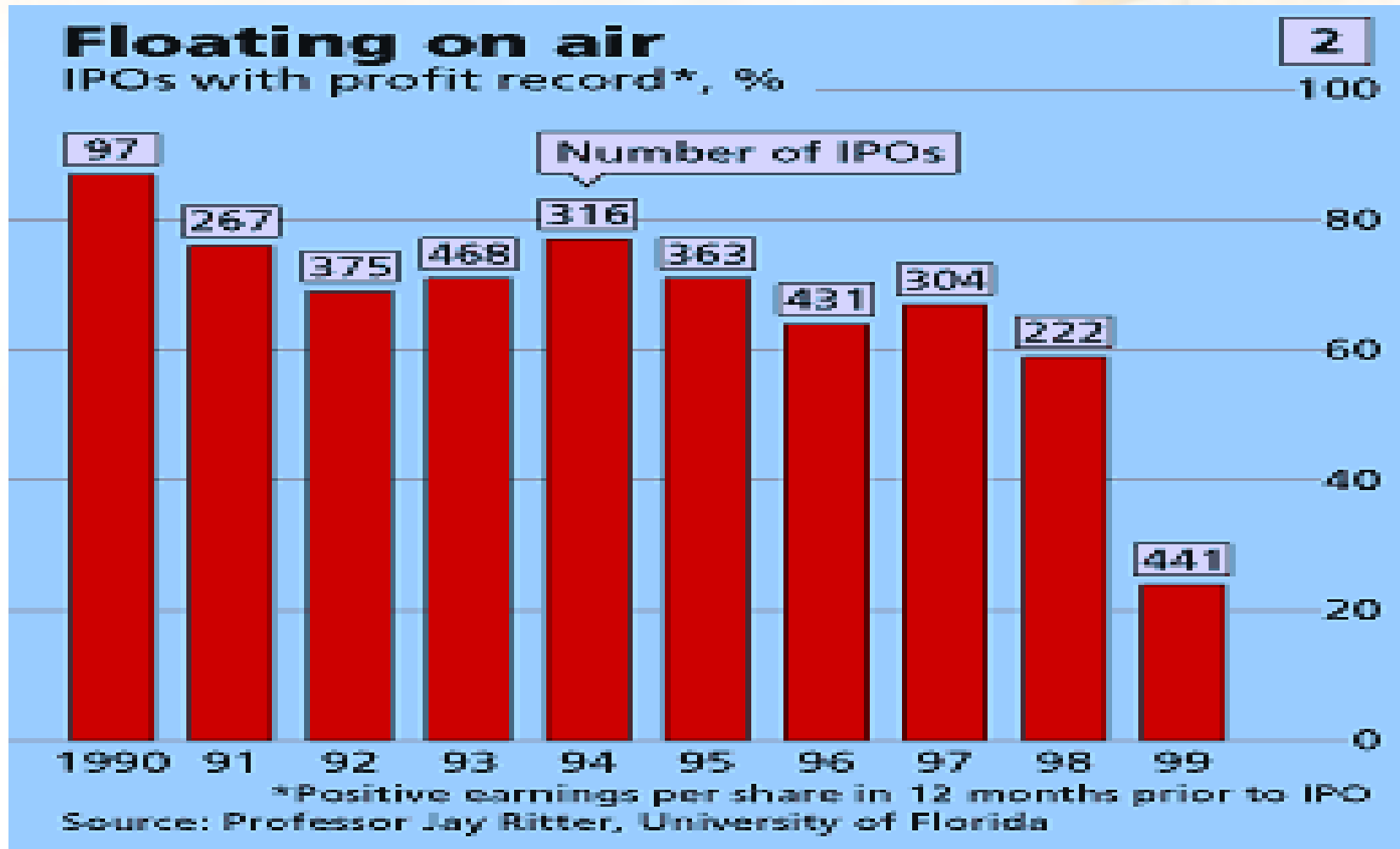
Flows into US venture-capital funds  
\$bn



Source: Venture Economics

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# Liquidity vs. Profits





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# Risk & Return

## Risks and returns

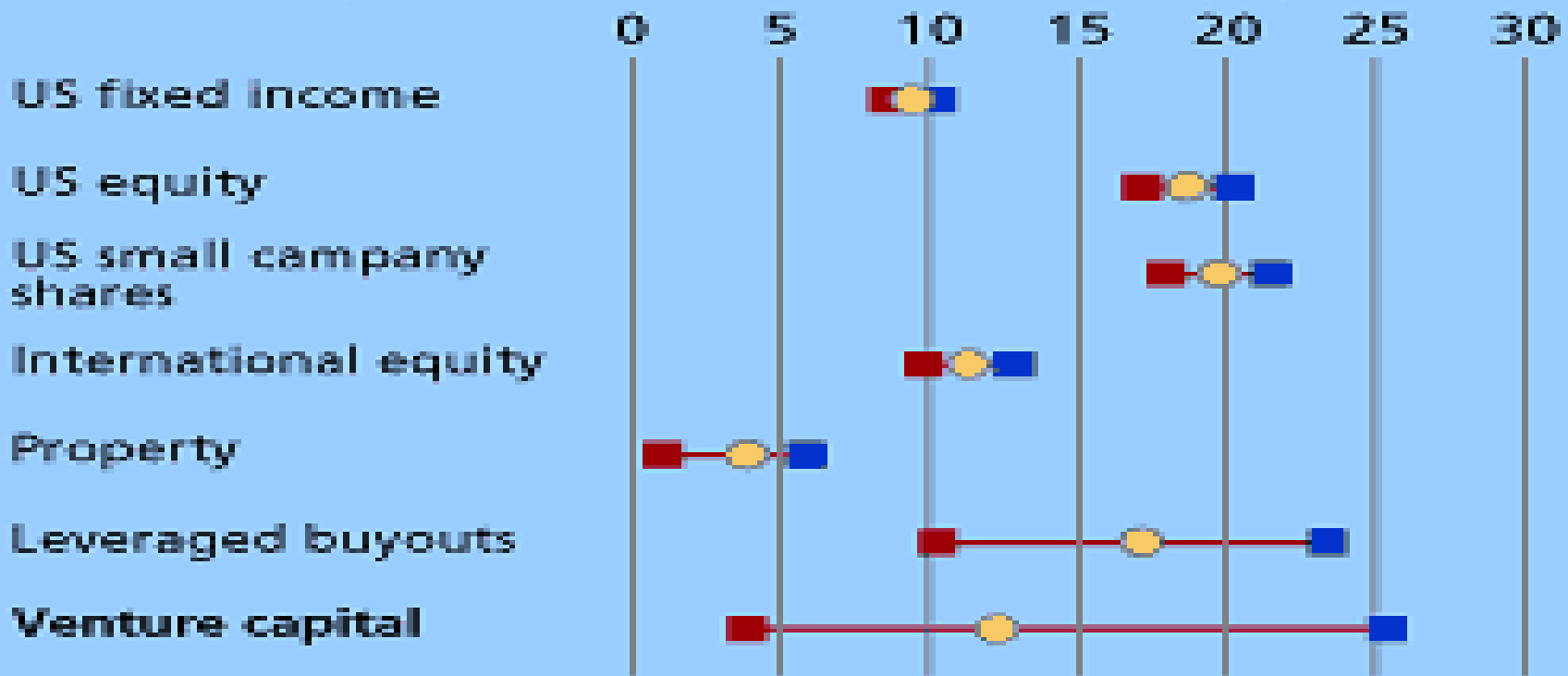
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Annual % returns, by quartile\*

■ Bottom quartile

● Median

■ Top quartile



Source: Yale Endowment Fund

\*Average for ten years to end-1997





# Topic #4: How Venture Capital Works



## The Reality (Business) of VC (How it Works)

Equity is a Great Product, but:

1. It's Expensive (% ownership)
2. Selective-1/100 SMEs (in USA) seeking VC get \$\$
  - Need Big Markets (\$50-\$100MM)
  - People (Technical, Mkting, Mgt, Support, etc.)
3. Requires Capital Mkts & or Strategic Buyers

# Topic #4: How Venture Capital Works

## Probability

### Individual Event

Company has enough \$\$

80%

Mgt. Capable & Focused

80%

PD Successful

80%

Mfging Successful

80%

Competitors Behave as Expected

80%

Customers Want Product

80%

Pricing is Correct

80%

IP Issued

80%

—————→ **17%**

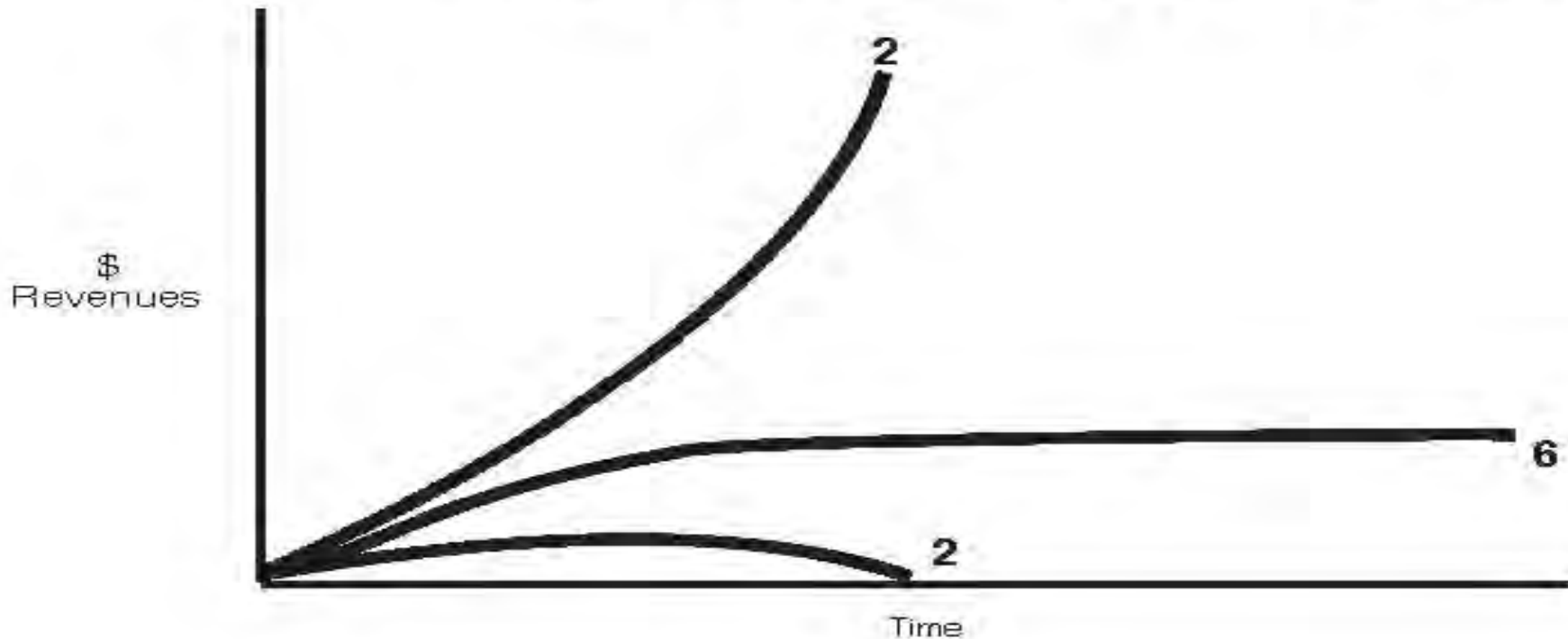
### Combined Probability of Success

Low Success Rate = Invest 1 of every 100 deals



# Topic #4: How Venture Capital Works

## Private Equity 2-6-2 DISTRIBUTION OF RETURNS RULE





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# Topic #4: How Venture Capital Works

## Requirements to Receive VC

1. Large addressable market or defined niche
2. Uniqueness in concept or application to create LT competitive advantage (vs. 1<sup>st</sup> mover advantage) &/or Do it Better vs. the Competition
3. Focused management
4. Liquidity potential





# Topic #4: How Venture Capital Works

## Value-Added of VC (Beside \$\$)

1. Sometimes Create the Deal
2. Raise New \$\$\$ & Add Corporate Governance, Experience & Contacts
3. Keep Interests Aligned
4. BOD Participation, not Manage the Firm
5. Encourage Founders to Think in Kilometers, not Centimeters



# Topic #4: How Venture Capital Works



## VC & PE in CIS & Russia

1. Two major investors EBRD & US Gov't
2. Enterprise Funds in CEE
3. Enterprise Funds in CIS/Russia
4. EBRD Funds in CEE, CIS & Russia
5. Approximately \$4 Billion Committed, 75%+ from the Multilaterals (w/IFC & DFIs)
6. Growth in Oligarch Funds/PE



# Topic #4: How Venture Capital Works



## VC to PE in Russia Today

1. 1<sup>st</sup> in VC (1994-1999). Deals w/VC Characteristics. Migrated to PE financing/growth in Post Financial Crisis
2. Expansion Stage Financing, US\$2-\$20 million/deal with limited syndication
3. Deals = For Domestic Economy, FMCC, F&B, Retailing, Real Estate, Wholesaling, Transportation & Western Successes Transplanted to Russia, Sabarro Pizza



# Topic #4: How Venture Capital Works

## Why Little €//\$ Goes to Russian Tech

1. Capital Seeks the Highest Rate of Return
  - Strong Growth in Non-tech, Retailing, Distribution, FMCC, F&Bs, etc.
2. Competition from Stock Mkt & Real Estate
3. Competition from Israel, US, Europe, etc.





# Topic #4: How Venture Capital Works

Initial Attempts: Tech for Int'l Mkts

Where Demand Is

**But**

Gaining Access is Expensive

Penetration & Growth Takes Much Time

Few Results



# Topic #4: How Venture Capital Works

**FACT: Russia Has Good Ideas: Ideas  $\neq$  Deals**

1/200 SMEs seeking VC get €/\$: Why Reject?

- Undeveloped Opportunity
- Lack of Uniqueness/No Competitive Advantage
- Too much \$\$\$, too much time & too little reward
- People (mgt./employees)
- Lack of Transparency, No Clear Title/Ownership of IP



# Topic #4: How Venture Capital Works



## 1<sup>st</sup> Interest in Tech-Russia

1. Intel Capital, AddVenture, etc.
2. One-off Deals by PE Investors, Barings
3. Russian Gov't Initiatives-Regional VC, RVC & Rusnano



# Tipping Point for Russia Tech

Регистрация — ДарБери (Groupon Russia) - Windows Internet Explorer

http://darberry.ru/signup

File Edit View Favorites Tools Help

Google Darberry.ru Search Share Sidewiki Check Translate AutoFill Darberry.ru Sign In Convert Select

Google This page is in Russian. Translate it using Google Toolbar? [Learn more](#) Not in Russian? [Help us improve](#) Translate Always translate Russian

**darberry**  
СОВМЕСТНО С Groupon

Только 23 – 24 октября 2010 года

Консультация стилиста-имиджмейкера в лаборатории «New Look» со скидкой **85%**

Каждый день мы предлагаем лучшие скидки!

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Page: 6 of 7 Words: 1/3,083 English (U.S.)

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# Topic #4: How Venture Capital Works



## Emerging Interest in Tech-Russia

1. Tipping point, Darberry purchase by Groupon
2. Now many funds, focus on digital media deals, social networking.
3. From August 2010-September 2011, 50+ deals announced
4. Int'l funds + newly created Russian funds

# Building a Mgt. Team of Glory

Idea?



Entrepreneur?



Who invest in?



Team?



What has our trust?  
Who has our trust?

# What's Common Here?



20 November 2009

# What's Common Here?



23 June 2010





# The Story: Build, Team of Glory

April 1994-\$3MM invested  
August 1995 IPO, \$2.3 Billion  
1998, AOL Pays \$4 Billion



Story starts earlier

# The Story: Build, Team of Glory



1. Born in Illinois, 1971
2. Read book, taught himself BASIC programming, age of 10
3. At 11 he codes 1<sup>st</sup> application, calculator to do homework
4. His parents pay \$595 for Commodore 64, attaches to TV, stores files on cassettes



5. In 1992 enrolls at Univ. of Illinois to study electrical engineering, but ended up in Computer Science-less work.

# The Story: Build, Team of Glory



1. Works part-time at National Center for Supercomputing Applications.



2. Spends hours frustrated, roaming the Web. Lee's browser only works with NeXT, display only one line of text. Other browsers have shortcomings.

```
"find/-type1  
print|perl-nle'-  
e||print';"
```

3. This Andreessen aims to change.

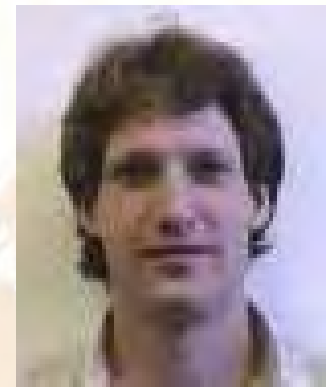
# The Story: Build, Team of Glory



1. Learns that hardware has limitations, but software is limited only by imagination.

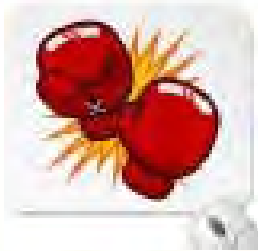
2. His goal is to usable by anyone with a computer & modem with no knowledge of Unix, Linux or DOS.

```
"find/-type1  
print |perl-nle'-  
e| |print';"
```





# The Story: Build a Team of Glory



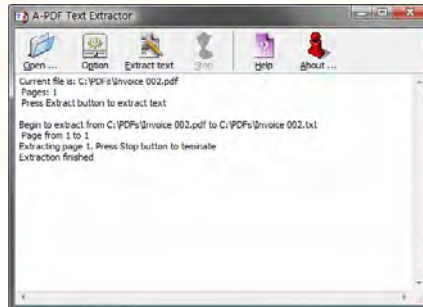
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# 6 weeks, 24/7, writing code



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# Result of 6 weeks, 24/7, writing code: Mosaic







# Marc's Message to Online Bulletin Boards, 23.01.1993

“By the power vested in me by nobody, alpha/beta version of 0.5NCSA's World Wide Web browser, X Mosaic, is hereby released.” Ported Mosaic to Windows, Mac & operate on Web server. Add user friendly features

Cheers

Within 6 weeks, Unix version of Mosaic had 100,000+ users

December 1994, 1,000,000+ users

Marc



# Result of 6 weeks, 24/7, writing code: Mosaic



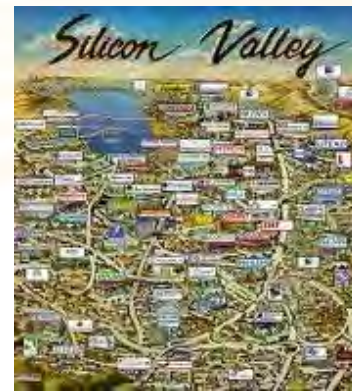


# Others Take the Credit

New York Times "Mosaic is the Map to the Buried Treasures of the Information Age with DEC, Xerox & Novell as users & customers."



"Mosaic is the 1<sup>st</sup> Window into Cyberspace."



Story does not end here!

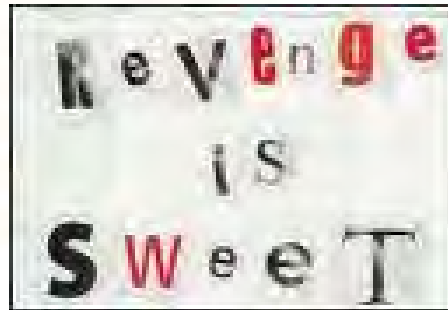
# Forming the Team



Oversaw growth of SGI to \$ billions. In 1994, pushed out, \$15 million



Founded SGI, 1982, with 7 Stanford graduates.  
Supercomputing performance from networked desktops



# Team Building



Given Marc's name.  
Looks at his resume via  
Mosaic & writes  
through Mosaic



"You may not know me, but I'm the founder & former Chairman of Silicon Graphics. As you may have read in the press, I'm leaving SGI. I plan to form a new company. I would like to discuss the possibility of you joining me."

Jim Clark





# Common Traits-Ingredients for Motivation

1. Smart & aggressive
2. Deep technical knowledge
3. See the big picture-Looking for ways to simplify technology & serve the mass market
4. Felt cheated, others getting wealthy on their creativity, sweat & tears
5. Looking for revenge: Payback

# Common Traits-Ingredients for Motivation

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4. Felt cheated, others getting wealthy on their creativity, sweat & tears
5. Looking for revenge: Payback
6. Marc: "I'm finished with all that Mosaic Shit."

## 1<sup>st</sup> Efforts

1. Started looking at ideas
2. Interactive TV, gaming, no decisions
3. Lot's of talk, no action
4. After much wine, decided to create the Mosaic killer.
5. Marc e-mailed his former colleagues at NCSA, asking to join him and Clark.
6. Divided the team into three; Unix, Mac & Windows.

## 1<sup>st</sup> Efforts

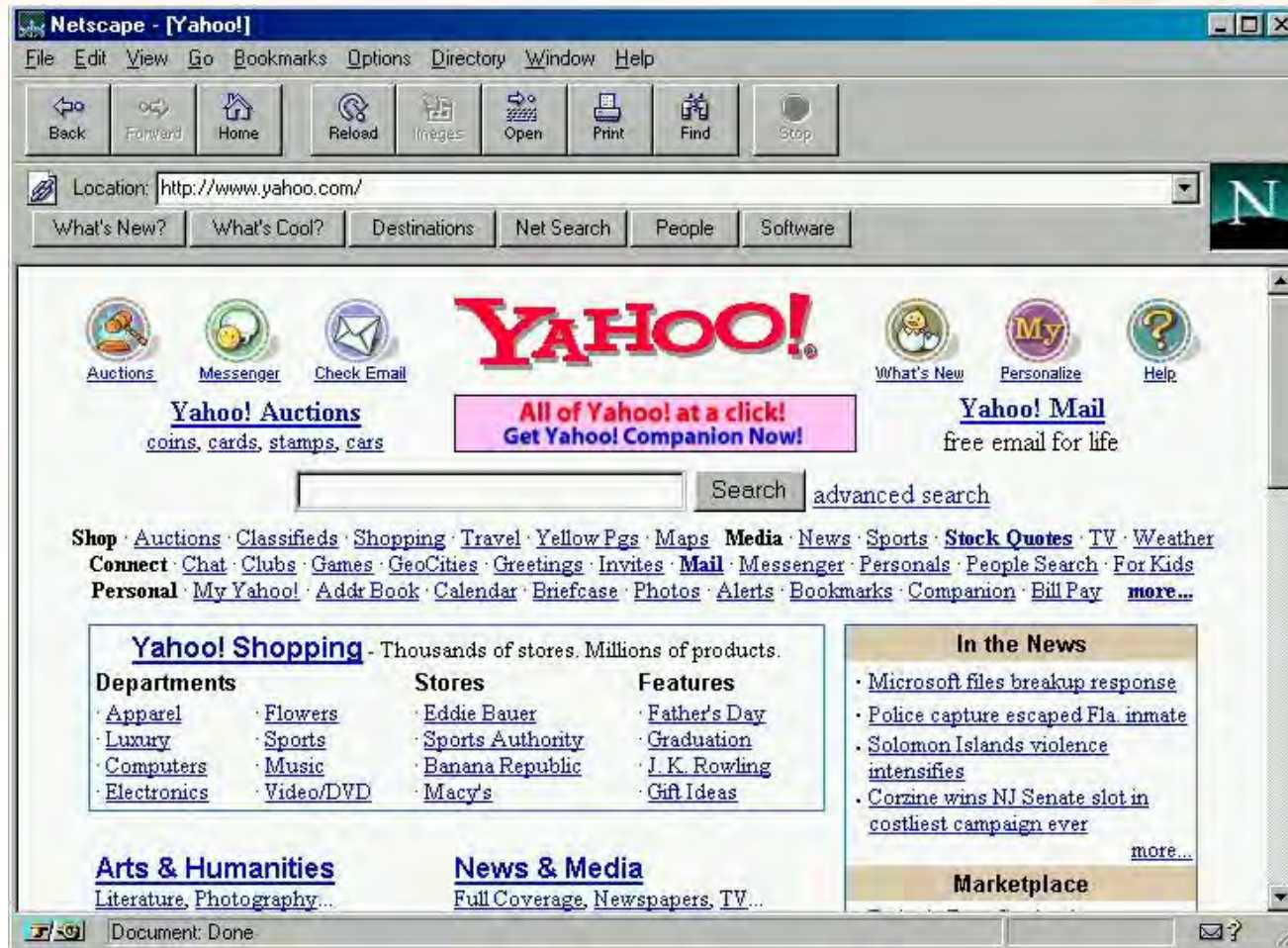
1. Re-engineer product to work over dial-up phone lines and modems, not T1 & T3 lines paid for by government.
2. Andreessen appointed as 'VP of Thinking Up Stuff.'
3. Expanded products to include server & security software, e-commerce app., & the browser.
4. Debate on giving away free



# The Launch & Victory

1. 1.0 released on 15 Dec., 1994
2. Within hours, 10k copies downloaded
3. Spring 1995, 6 million copies in use
4. Summer 1995, 10 million copies in use
5. IPO 9 August 1995, opening price of \$28, high of \$71. November 1995, price of \$171/share.
6. Browser war began, w/Microsoft.
7. Finally AOL purchased Netscape for \$4 billion

# The Launch & Victory





# Common Traits-Ingredients for Motivation

1. Smart & aggressive
2. Deep technical knowledge
3. See the big picture-Looking for ways to simplify technology & serve big markets

Other traits, build a Team of Glory

# Characteristics

1. Inquisitive
2. Deep tech knowledge, usually starts at an early age-frequently self-taught, self-initiated & self directed
3. Anti-cultural; against the establishment; fight the system; have something to prove.
4. Able to convince others to join in the fight, the vision that the 1-2 key guys see.
5. Work with people they admire & trust
6. Attract people to the idea, work on a fun & enjoyable project, not to create a company \$X.



# Characteristics

1. Attract a team that will use the product/service being used.
2. Commit before success vs. success before commitment.

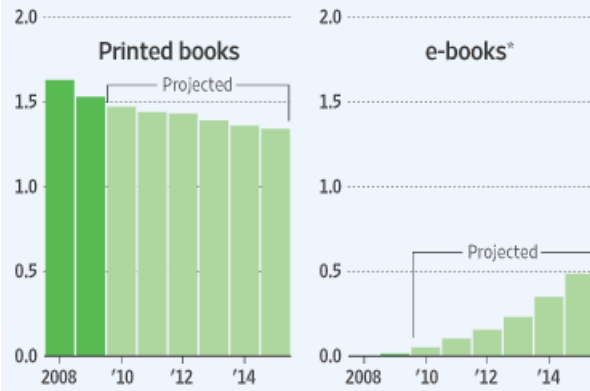
# Elements: Team of Glory

1. Clearly articulate what they want to do & how to get there.
2. Put themselves in positions to have contact with a wide range of people, inside & outside the organization.
3. Situate themselves in the midst of information flows
4. Tackle projects that seem mundane or boring, but not to them
5. Act as brokers, bring unrelated groups of people who benefit from being in contact with one another.
6. What have founders done to build their power as a way to assess their individual skills, what they can

# Ideas as Viruses that Spread

## Changing Reading Habits

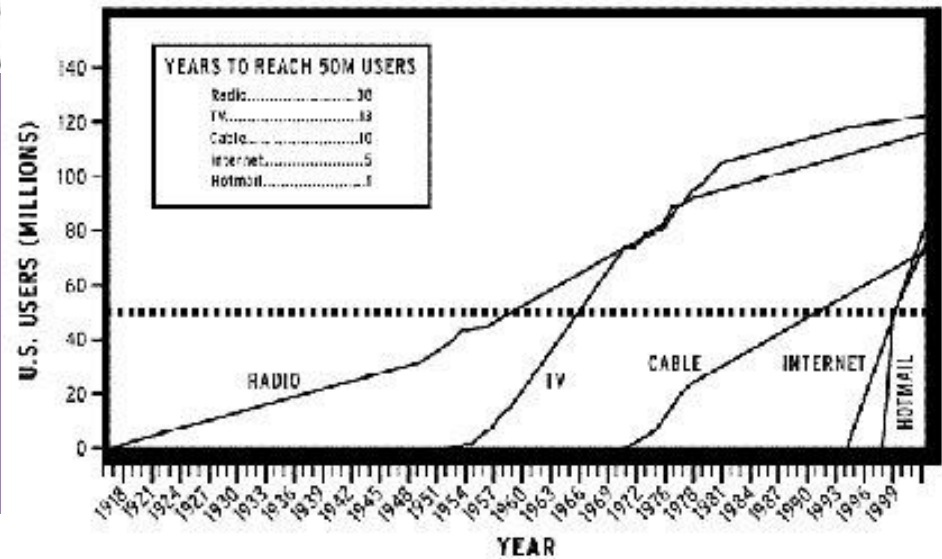
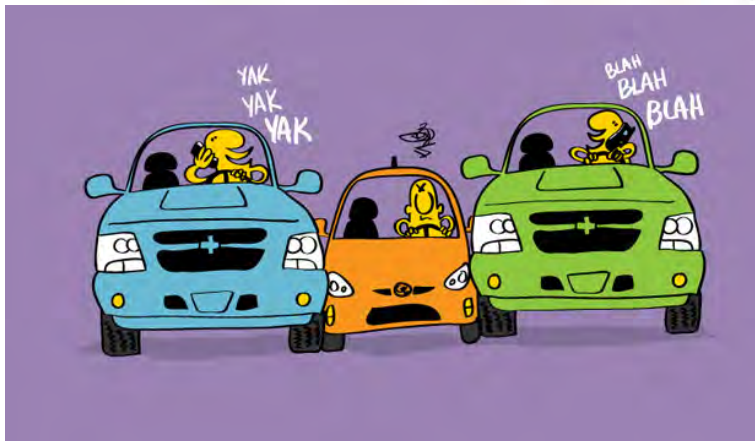
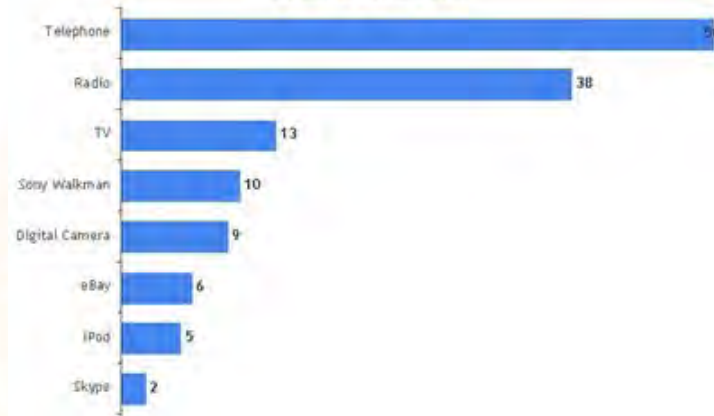
Consumer-book sales, in billions



\*Excludes free downloads

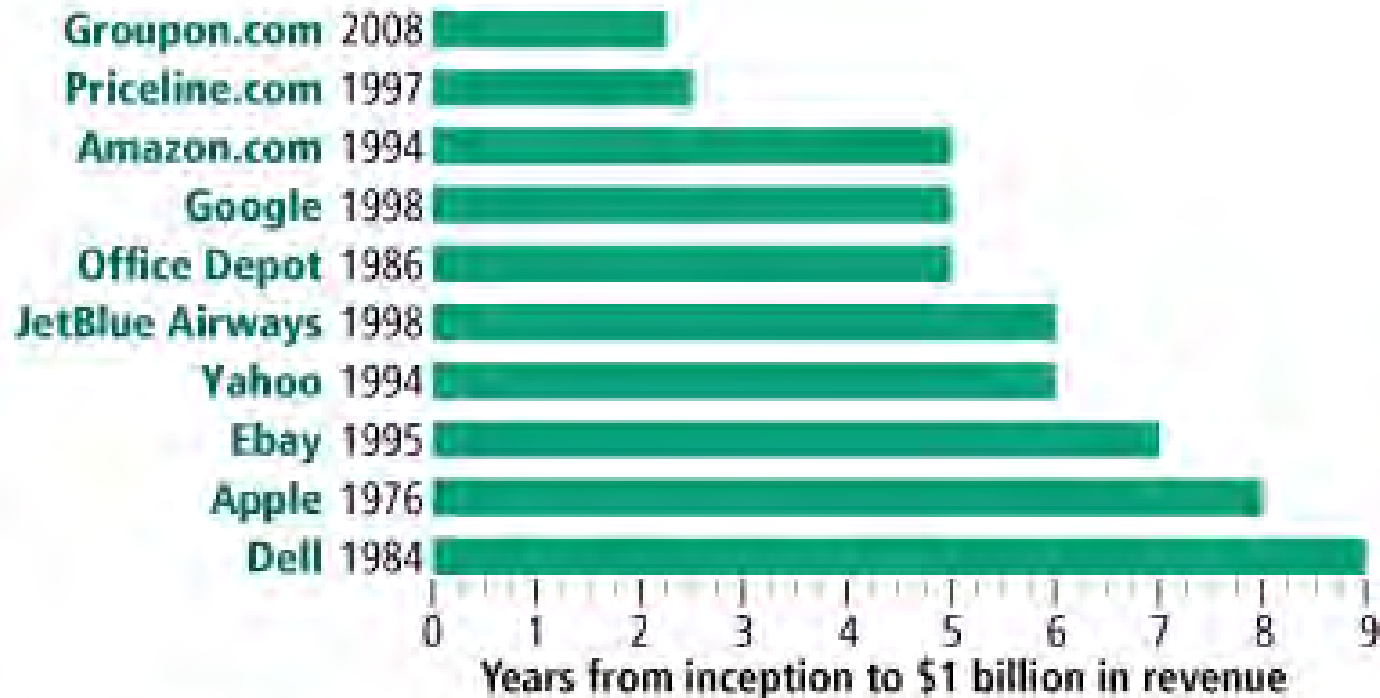
Source: Albert N. Greco, Institute for Publishing Research

## Years to 50M Users



Source: Forrester Research

# Years to a Billion \$ in Sales



*Sources: Capital IQ, a Standard & Poor's business; Morgan Stanley; Thomson Reuters Fundamentals via FactSet Research Systems; Forbes.*



# Social Networking



twitter

LinkedIn

salesforce.com  
Success On Demand.™

GILT  
GROUPE

You Tube

Glam Media

workday.

# Ideas Viruses

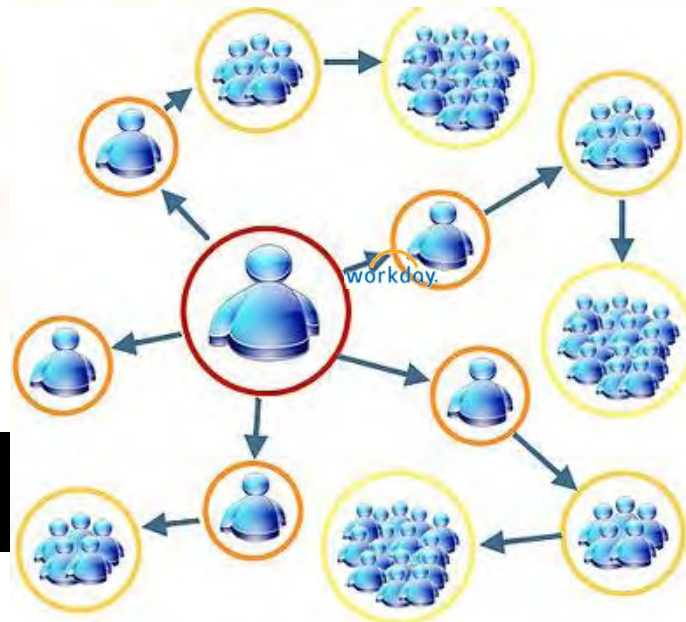
“An idea that just sits there is worthless. But an idea that moves and grows and infects everyone it touches... That’s an ideavirus”

Seth Godin

**Glam Media**

**You Tube**

**GILT  
GROUPE**



salesforce.com  
Success On Demand™

twitter

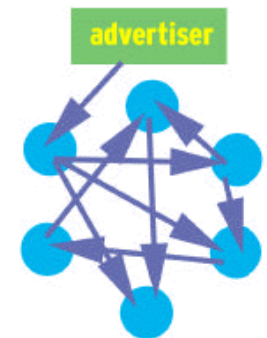
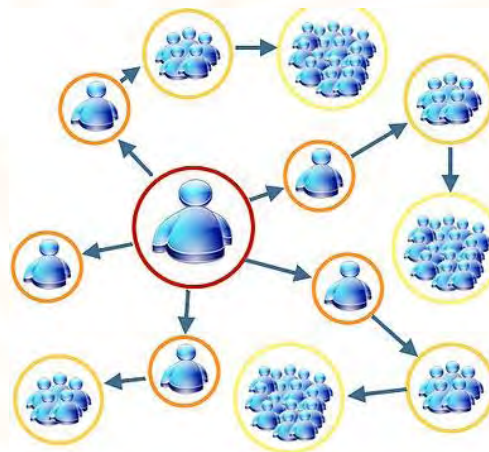


LinkedIn

# Idea Viruses

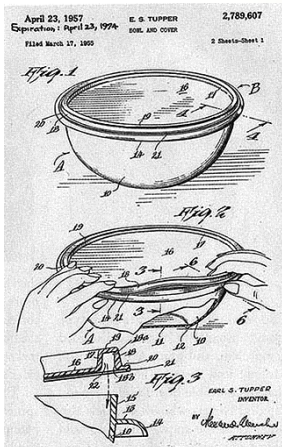
“If we build the people, they’ll build the business.”

Brownie Wise



advertiser

consumers



“Ideas are only valuable when they touch people”





# Entrepreneur Stories



**Have an iPhone?**  
You should grab the **FREE** HOT or NOT iPhone App!  
Rate and Meet over 4.5 Million users!

DOWNLOAD 

Within 90 minutes of Hot or Not upload, users 2x/2 hours. On day 2, users 2x/hour, with 100,000 users. 2-3 of every 10 users passed the link on to friends.

1¢ 2x/day for a month.  
End of 1<sup>st</sup> week=64¢  
End of 2<sup>nd</sup> week=\$83.92  
By day 30=\$5MM

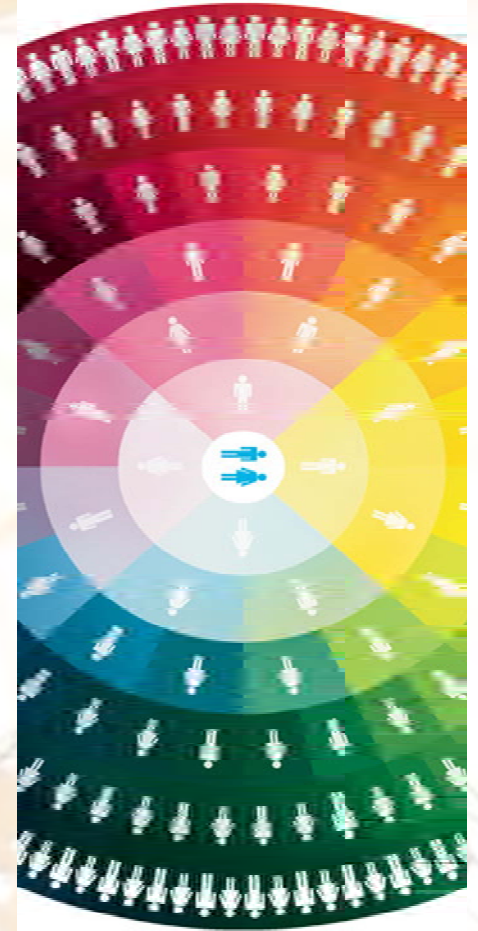
Idea viruses are business accelerators

Idea viruses are the currency of the Future



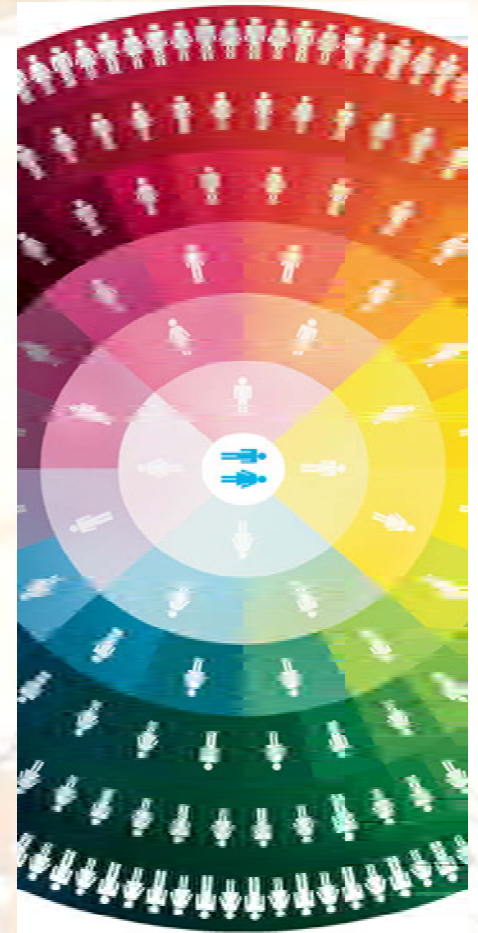
# Characteristics & Commonalties of Idea Viruses

1. Customers/users spread the word through their social network of friends, family, colleagues & peers.
2. Web based
3. Freemium (at 1<sup>st</sup>, paid premium later)
4. Organize content created by their users
5. Virality is incorporated in the design
6. Network effects
7. Reach point of non-displacement
8. Exponential, but unpredictable growth



# Characteristics & Commonalties of Idea Viruses

1. Each new user begets another.  
eBay attracted sellers that attracted buyers that attracted new sellers.
2. Why be on Facebook if your friends are not. Why use Flickr if you can't share photographs with others?



## How They Did it (Idea Merchant)

Spread of Tupperware no different than the spread of Hotmail, Facebook, Twitter, YouTube others.

1. Product users spread the word. Started with a core group of hostesses that hosted parties.



2. Seamless transfer of product excitement from one friend to another.

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# How They Did it (Idea Merchant)

3. Transformed trial use into purchase (adoption) & purchase into repeat buyers (users) that spread the word.



twitter

LinkedIn

You Tube



# What's Common Here?





# Topic #4: How Venture Capital Works

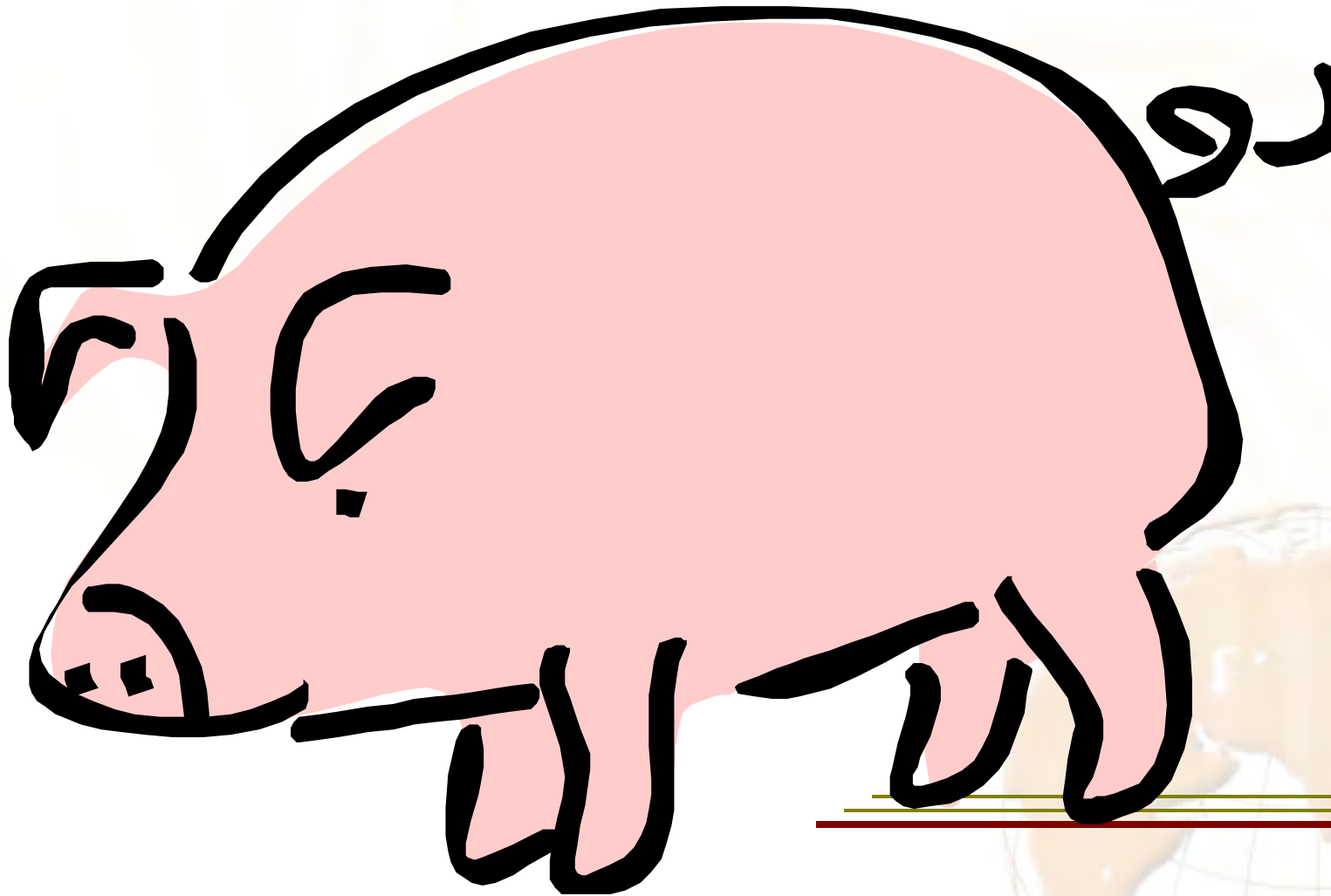
## Summary

Entrepreneurship & VC are linked

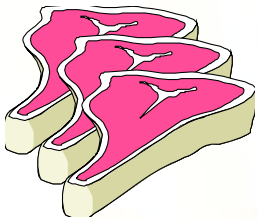
VC only successful if entrepreneurs are successful

Entrepreneurs successful only if their ideas are adopted-successful

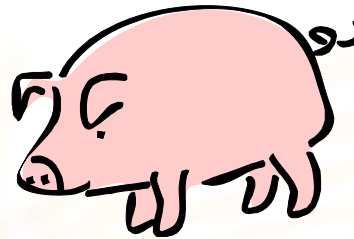
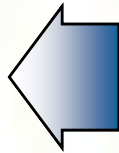
# Where is the Technology?



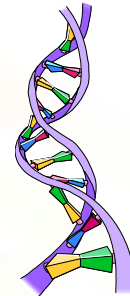
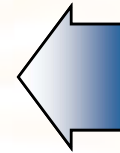
# Technology In Many Places! Just Look & Define



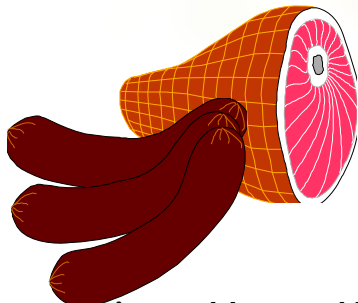
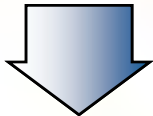
Slaughter



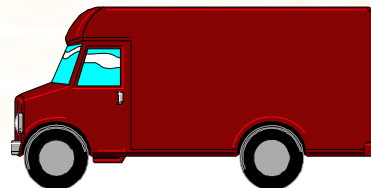
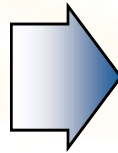
Raising



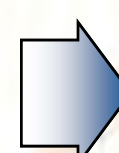
Genetic Engineering  
& Breeding



Processing- Ham, Kielbasa



Distribution, Storage &  
Delivery



Retail Locations





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Tom@IVIpe.com

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