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NSBE

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Amplemarket

Can sales be replaced by tech?

Five years have passed since the three Portuguese founders; Luis Batalha, João Batalha and Micael Oliveira first arrived in the Bay Area, the world's most prestigious technological hub. Now, with the second startup in their hands, the founders face several important decisions in order to takeoff their newest idea, Amplemarket - a sales assistant powered by artificial intelligence.

Two months have passed since they launched their new product and now it's time to think about the challenge of raising capital:

1) When is the best time to raise it?
2) How should they raise it?

The founder's history: academic excellence

Luis started his journey at IST (Instituto Superior Técnico) where he enrolled in one of the most difficult courses (Physics) where he managed to be the best student of his class. Later, despite his passion for engineering and technology, he decided to join Oxycapital, a private equity in Portugal. “It was a tough decision but the fact that this company managed to have the best students from all universities was the main reason I accepted the offer. I try to look for environments where people push me to be the best” recalled Luis.

Micael, had other plans for his life. He decided to leave his university in Strasburg to join IST and do his masters in Physics. “Me and Luis eventually met in a laboratory where we were both doing research. Soon we became really good friends and co-workers” recalled Micael. Although entering the market seemed appealing at the time, Micael decided to pursue a higher academic degree, enrolling in the PhD. “I was a huge fan of data science and I knew that was what I would be doing in my PhD. I knew that knowing how to analyze and create data was the future and for me there was no better place to do it rather than in a Physics PhD” said Michael.

Despite being brothers and sharing the same passion for engineering, Luis and João went through different paths. While Luis decided to stay in the most prestigious engineering school of Portugal, João wanted something bigger and somewhere he would be among the best in the world. Therefore, he decided to go to MIT where he enrolled in computer science. “It is not about the knowledge you acquire, it’s about pushing yourself as hard as you can in order to catch up with everybody. I believe that the secret to achieve greatness is to be amongst it” said João.

The three founders were prospering in life. Yet, the idea of having something of their own never left them. “I remember calling Luis and João almost every day to discuss new ideas and projects we might have. On the weekends me and Luis would both meet to discuss these ideas.

I even remember coding random projects just because we knew that one day it would be useful" recalled Micael.

The first startup: Orankl

During an internship at Lockerz, a tech giant, João was programing a comments/reviews system just like Reddit. This was and still is a basic tool for the e-commerce market and this company had just raised $80 million from Kleiner Perkins, an American Venture Capital, partly in order to hire top engineers, such as MIT students to develop these kind of basic software tools. The comments/reviews system is something every e-commerce business must have to thrive because "reviews alone increase 20% on average sales, reduce return rates and increase user trust and engagement" said João. Nevertheless, small companies do not have the same amount of money Lockerz had to hire engineers.

Despite being apart from each other, the three founders would often go through their ideas. "We would have hours of weekly discussions about our latest ideas" recalled João. From all these ideas, there was one that stood. "When I was working as an intern at Lockers, there was a clear market for us to develop a SaaS (software as a service) company that offered small to medium merchants a product that most of them craved. Me, Luis and Mica had been discussing this idea together for some weeks and we had no doubt, it was a matter of time until we all fully committed to this new project" recalled João. In January of 2014 they decided to quit what they were doing in order to build this startup called Orankl.

This new startup offered a software which gave online merchants some of the tools that retailers like Amazon, Aliexpress and Ebay use: review/comment system, product recommendations without having to hire engineers to do it from scratch, see **Exhibit 1**. Orankl's main target was small to medium online merchants, manly the ones who cannot afford to pay for engineers to develop these tools. Like most Saas companies, the three founders knew that the best way to make profits would be by creating a monthly subscription. Therefore, they created three simple pricing options shown in the **Exhibit 2.**

Orankl's first step was to apply to an acceleration program called Lisbon Challenge. "We were immediately rejected. They told us the idea was in a very early stage and that they couldn't accept us. We actually had no product yet to sell but we were now 100% committed to building it, given the fact that all of us quitted everything. We couldn't take a no for an answer, so we insisted until they would consider us and after some persistence, we got accepted" recalled Luis.

Competing against already established startups with solid business models would be a hard task for the three founders. "I remember that we had to work twice as hard in order to come with a viable business model" recalled Luis. The founders managed to build their product and start selling it in less than four months and against all odds, they managed to win the challenge which granted them 30 years of free office in Lisbon.

Right before the challenge was over, they applied to Y Combinator, a business accelerator located in Mountain View, California. "We traveled all the way to the US just for a 10 minute interview, it was nerve-wracking. They appreciated our idea and most of all, our team. In January of 2014 we got into the winter batch of Y Combinator. At the time it was a big deal, not only were we the first Portuguese startup to get in, but also, since then, only Unbabel was able to do so" recalled Micael.

Founders spent 12 weeks at YC, building what were typically technology businesses, working with YC's mentors, meeting investors, and laying the groundwork for becoming fast-growing, independent companies. The startups would trade a piece of equity that is normally around 7% for a small amount of cash but most importantly, weekly access to YC's network, the most powerful institutions within the startup realm.

"The 3 months of YC were the most intense we had in our career, no sleep, no hobbies, no friends and no family, only work. They have a perfect model, gathering all startups weekly where they can share their progress, causing an immense amount of pressure to do well. We were constantly thinking about the humiliation it would be if we had poor results" recalled João.

Demo day was arriving and the three founders were doing their best to gather as many clients as they could in order to attract investors. "We received an email even before demo day from a family office in Germany that wanted to invest on us. There are many investors that want to invest pre demo day in order to get a discount, such as Sequoia with Airbnb. Most of them invest in many startups so they can have a similar portfolio as YC which is extremely profitable", recalled João.

After three long months, it was demo day. The three founders had their two-minute pitch memorized and it was action time. "We did a good presentation of our business model and afterwards we were approached by some investors with whom we raised the precise amount for us to take our business to the next level; $700.000 in SAFE (Simple Agreement For Equity) which is easier than using convertible notes for the first round. We got $8 million pre-money valuation", said Micael. Most of the investment came from Angels and the only VC that invested was Caixa Capital some days later.

Living in the Bay Area: Startups, Investors and Hobbies

After the YC program, the founders decided to stay in the Bay Area where they moved in all together. "Living in San Francisco is going into a restaurant, a bar or just a park and finding at least one founder. You immediately get hooked into this environment of technological change and innovation. There is an enormous incentive to create and although we were already working in our startup, we wanted to keep learning. Therefore, we had this routine of discussing papers weekly and one of the first papers we read here in San Francisco, was about bitcoin. We had a long discussion about it and eventually added some comments and links that explained the paper in more detail, then we uploaded it into a site we created and it had a huge unexpected outreach, so we started doing it every week. Eventually, we decided to create one of our first hobbies here in SF: Fermat's Library" recalled Luis. It´s a platform created to illuminate academic papers and their mission is to give more exposure to these papers. Not long after being created, millions of users started uploading papers into what is now a platform with 17 million users per month, one of them being Elon Musk who often talks about the papers in the platform.

The rise of a new opportunity

Several months had passed since the beginning of Orankl and things were not going as expected. They were only three and the startup demanded programing, customer support and sales which is not what an engineer should be best at. They often found themselves with little time for all tasks and none of the three founders actually wanted to do sales 24/7. "The sales bureaucracy was consuming a lot of our time and we had no money yet to hire sales representatives", recalled João. Their business required a huge amount of time on finding online merchants and selling them the product.

That was when their engineering expertise came into play by building a simple software that could automatically pick up the sites of the online merchants in a certain region. "This was a game changer in our business because we could sell a lot more and a lot faster. Yet it was not enough, we still had to waste some time trying to find these merchant's contacts and email them our product, so we started to develop this software even further", said Luis. Naturally, they figured out a way to gather all contacts from these online merchants and as their lead generation software got better, they realized that this was a general issue among many startups. "We had some friends from YC that had the exact same problem: too much time and money spent on sales. Therefore, we realized this was a common problem among early stage companies and that was when we saw a new business opportunity" recalled Luis. In 2017 Orankl was growing in numbers of clients (approximately 6000) but with very limited sales ($100.000 annual revenue). Even though they had good projections for Orankl the idea of reinventing the sales world excited them.

On one hand they had Orankl which was not meeting expectations and on the other hand they had a software that could revolutionize the sales industry. Therefore, they decided to redesign their entire business and started a new startup called Amplemarket. "All three of us are passionate about solving market inefficiencies. And at the time it was clear for us that there was one in sales. It turned out to be a natural pivot although we kept Orankl in automatic pilot until today" recalled Micael. On 2017 they developed a simple version of the product which was on test mode alongside some of their network startups. Using what was left from the money they raised in demo day and the revenues from Orankl, the founders worked on the product for two years until finally in July 2019, they launched it into the market.

Business Model: Technology replacing sales

Market opportunity

The average spend in sales and marketing in the SaaS industry is considerably higher than the average across industries. Many SaaS companies, spend more than half their annual recurring revenue on sales and marketing costs. According Tomasz Tunguz, a partner at Redpoint Ventures, an American Venture Capital, during their first three years, SaaS companies often spend anywhere from 80% and 120% of their revenue on sales and marketing. It then falls to around 50% from year five on[1]. Also, according to Gartner, a consultancy firm, as of 2017, Salesforce was spending 49% of its revenue on marketing and sales, or around $3 billion. In 2013, the small SaaS went public, quickly sinking 53% of their total revenue into marketing and sales. This move doubled their revenue, growing it from $412.6 million in 2014 to $826.9 million in 2016 [2].

Also, in the last few years we have seen a rapid growth of SaaS companies, see **Exhibit 3.** "There are 500x more SaaS companies since 2009 and there are 100 SaaS unicorns today" said Luis. Despite offering different services, they all have one thing in common: huge amount of sales. Most of them are still very human intensive and they rely on people's persistence, intelligence and most importantly experience.

Regarding a study made by Bridge Group, a consultancy based in Hudson, companies that require SDR's (sales development representatives) with higher experience have much better sales performance. This means that SDR's experience is a significant factor in sales success.

However, in the last few years, the average experience required at hire dropped to 1.3 years **Exhibit 4.** Also, the average tenure has fallen to 1.4 years **Exhibit 5**, which means that SDRs have a full productivity average (discounting a 3.3 months average ramp time) of 14 months [3]. This lack of experienced SDRs leads to poorer performance in sales.

The AI powered product and where does it stand on the market

Creating leads, sending customized emails, following up and being a smart seller is the basics of a good SDR, see **Exhibit 6**. These are not simple tasks and unexperienced people can compromise the efficiency of it. "70% of SDR's time is spent on non revenue generating activities. Also, 60% of reps miss their quota" said Micael. Here is where Amplemarket comes into play, their AI powered software helps SDRs thrive in each one of their tasks (see **Exhibit 7**) with the following features:

Lead generation - Finds the right prospects based on filters like job title, industry, location, technology and many more. The accuracy of the system's generated leads is a significant improvement for most B2B SDR's lead generation, see **Exhibit 8.**

Customized outreach - Set up personalized email cadences that will automatically engage and follow up with your leads. Automatic engagement such as adding the Linkedin profiles, sending them emails and messages are triggered if your lead does not engage to your first email. Also, there is a platform where you can track open and reply rates in order to identify the most effective messages for every step of the sales funnel, see **Exhibit 9.**

Smart actions - Automate sales flows so you can focus on selling. Finish routine tasks automatically such as: circling back when someone is back at the office, adding an interested lead to your CRM, adding a lead to a blacklist, forwarding prospect information to a colleague. Amplemarket's AI driven Smart actions is one of the best time saving tools for an SDR, see **Exhibit 10.**

Target customers

Amplemarket's product came to reduce significantly their clients' time & money spent in sales and improve results. Their two-month product is already being used by early stage SaaS companies which are their main target for now.

"Early stage companies selling software as a service are the ones that appreciate our product the most. Usually these companies require an intense sales force in order to meet their rapid growth. Here is where our proven product comes into play, to help these companies meet high efficiency within their sales teams. Also, these companies tend to have high levels of growth which means that if you close them early and they succeed, their growth means our growth" said João.

Competitors

"We have vertical competition, meaning that there are a lot of companies who offer similar features but neither one of them offer all features in one platform" said Luis, see **Exhibit 11** . The lead generation industry has been for a long time one of the biggest time & money costs on sales teams. Lead generating companies nowadays develop software (such as crawlers) to extract potential leads from the Internet. Apollo and Zoominfo are some of the competitors within the lead generation industry and there are many other companies that offer this service although the software is always different and there is a clear advantage for those who are more effective.

Customized outreach is a relatively new feature and Outreach.io is one of the major players when it comes to offering this service. They do not have lead generation integrated in their product and they are only now trying to introduce smart actions. When it comes to smart actions, there is no company that complements their outreach software with this Artificial Intelligence feature.

The perfect balance between growth and profitability

When talking about growth in the bay area, there are a lot of different views and opinions. Some may say that rapid growth is fundamental and others totally disagree. Over the last few years we have seen many startups growing costs much faster than profitability. Uber, We Work and Lyft are some of the examples you may find.

For the last decade, young tech companies were fueled by a wave of venture capital excess, which encouraged fast growth above all else. Venture capitals normally have 5 years to invest their funds. Therefore, when they see a good opportunity, they tend to invest a lot of money. Also, these startups are forced to spend the money as fast as they can in order to grow and give back returns to LPs (Limited Partner) as fast as possible. But now some startups and investors are beginning to rethink that mantra and instead invoke turning a profit and generating "positive unit economics" as their new priorities. Spending fast to grow fast is just no longer viable. It is now difficult for "a growth-at-all-costs startup burning millions of dollars with negative unit economics to get funding" said João.

Unlike these companies, Amplemarket has a clear goal of developing a scalable and profitable business model. "We took two years building our product alongside some of our clients until it finally got out and we will keep doing it step by step. Costumer success is our number one focus in order to keep scalability synchronized with profitability. This means that we want to grow as fast as we can, as long as we do not loose hand on our client's satisfaction and on profitability" said Luis. It is crucial for the founders to be profitable at all costs and to do so, they want to grow at a moderate pace.

Amplemarket has two offices, one in San Francisco where Luis, João and Micael work mostly in sales and "customer success" (the real sales effectiveness of the software) and one in Lisbon where they have a team lead and two developers. This workforce has been the one responsible for selling, developing and maintaining a product that in only a few months captured 40 clients with an approximate $50.000 monthly revenue.

They use their own product to boost sales which offered them a strong growth in potential clients. In fact, it made the founders decide to take the next step in terms of growth and start hiring more closers, due to the high number of potential clients. Also, account managers to take care of customer success for the new clients and developers to keep working on product design and maintenance. There are two major growth streamlines for Amplemarket:

1) The Saas market predicted to grow in the next few years and as time goes by and the product proves itself in the market, it will be much easier to sell.

2) The high growth of the early stage companies Amplemarket works with, also means high growth for the software startup.

In the near future, Amplemarket will need at least one good salesman in San Francisco which can cost them ~ $100.000 a year and one senior developer which costs ~ $60k in Lisbon and a Head of Customer Success which would probably cost ~ $150k in San Francisco. These are a must for Amplemarket's business to keep growing moderately which are the founder's goals for now.

Growing in San Francisco or somewhere else?

Despite its many clear advantages, Silicon Valley is experiencing a downturn, as it becomes a less attractive place for startups to launch and grow. There are three main reasons for this shift. First, Silicon Valley has produced tools that make it possible to run a company from anywhere or everywhere in the world. Messaging apps, productivity software, video-conferencing, goal-setting tools and more, startups are spreading their workforces, with employees spread around the world. That means more startups will be able to gain from Silicon Valley's expertise and talent base without the need of being there.

Second, it is no longer possible to innovate there on a reasonable budget. The cost of living in San Francisco is now the highest in the US; a study made by the Department of Housing and Urban Development says that a family living on less than $120,000 is considered "low income". These high costs mean fewer people can afford to risk going to work for an unproven startup, instead they will choose to go elsewhere. In a recent survey by the Bay Area Council, a think-tank, 46% of Bay Area residents said they planned to leave soon, up from 34% in 2016. Also, according to CBRE, a commercial-property firm, it costs $62.4 million a year to run a 500-person company with 7,000 square meters (75,350 square feet) of office in San Francisco. This is ~50% more than in Atlanta and Portland, and double what it costs in Toronto and Vancouver [4].

Third, and the biggest problem for Amplemarket is that the stifling impact of the tech giants affects the marketplace for ideas everywhere, and especially the market for talent in the Bay Area. Successful tech giants such as Google, Apple and Facebook, can afford to give huge sums in cash and stock options to employees, even middle managers, making it extremely challenging for startups to hire talented people.

Coming to Silicon Valley to network and fundraise will continue to provide advantages, nowhere else will match it for apprenticeship but it is clear that the option of going somewhere else is one to consider. “Nowadays we do have two offices, one in San Francisco and another in Lisbon. Me, Luis and João are here in San Francisco for obvious reasons, our clients and potential clients are mostly from the bay area and we are here mostly to sell our product. Lisbon is where we want to have most of our operations, from product developing to customer support” said Micael.

Financing options

Two months into their new product and the founders have to decide how, when and with whom they will raise funds with. Despite having already made a seed funding in YC’s demo day and having already Angel investors who possess convertible notes (SAFE), the founders need to raise more capital in order to scale up Amplemarket. “We are looking for a small amount of capital for now. Something around one million would be good for us to build a business model where scalability meets profitability in the future” said Luis.

The founders know that they have an advantage when it comes to raising capital given the fact that software startups are the most wanted in the Venture Capital market. This sector is the one that raises more money and has more deals, see **Exhibit 12**. Although the amount of money raised by Venture Capitals in the US has been increasing, the number of deals has declined, see **Exhibit 13.** This means that over the past few years, larger rounds have accounted for a greater proportion of overall deal count see **Exhibit 14.** Therefore, early stage investments are being compromised.

Seed-Funding:

Early-stage financings typically involves a relatively small amount of capital, usually under $1 million. Seed funding would help the startup to finance its first steps, including things like market research, product development and team. Although they already had a seed funding in YC's demo day, this is an option to consider given the fact that they changed the product and they are not looking for a huge amount of capital. The founders believe this might be the most viable option for Amplemarket's fund raise.

Series A:

Once a business has developed a track record (an established client base and consistent revenue figures), the company may consider Series A funding in order to further expand its client base and develop its product. Typically, Series A rounds raise approximately $2 million to $15 million. [5]

In Series A funding, investors are not just looking for great ideas. They are looking for a strong strategy for turning that idea into a successful, money-making business. Therefore, Amplemarket could avoid further seed funding and go directly to Series A. To do so requires significant growth with low cash burn given the limited cash available from previous seed funding.

Crowd funding:

This capital razing method has all become possible in recent years thanks to websites that allow nonprofits, artists, musicians and businesses to raise money. This is the social media version of fundraising which has proven to be successful. According to Massolution, a research firm, there are more than 600 crowdfunding platforms around the world, with fundraising reaching billions of dollars annually [6].

Crowdfunding websites such as Indiegogo and Kickstarter attract hundreds of thousands of people hoping to invest in the next hit. As of 2019, crowdfunding is mostly synonymous with Kickstarter, as it is the largest crowdfunding platform. Since Kickstarter's founding in 2009, the site has funded more than 160,000 projects, with more than $4.2 billion invested across all Kickstarter projects. Indiegogo started as a crowdfunding site initially focused exclusively on raising money for independent films but soon began accepting projects from any category a year after its launch in 2007 [7].

Not many Sillicon Valley tech companies look for these options. With the number of Angels and Venture Capitals in the bay area, these options tend to be forgotten. Although this financing method gives the opportunity for the startups to retain more equity and most importantly, to retain control from Venture Capitals.

Endnotes

[1] How much should your Saas Marketing Budget be? (2018, January 18). Retrieved from https://www.bigdropinc.com/blog/how-much-should-your-saas-marketing-budget-be/

[2] CMO spend survey 2016/2017. (2016, December 12). Retrieved from https://www.gartner.com/en/marketing/insights/articles/gartner-cmo-spend-survey-2016-2017-shows-marketing-budgets-continue-to-climb

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[4] Silicon Valley is changing, and its lead over other tech hubs narrowing. (2018, September 1). Retrieved from https://www.economist.com/briefing/2018/09/01/silicon-valley-is-changing-and-its-lead-over-other-tech-hubs-narrowing

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Exhibit 1 Main features of Orankl product

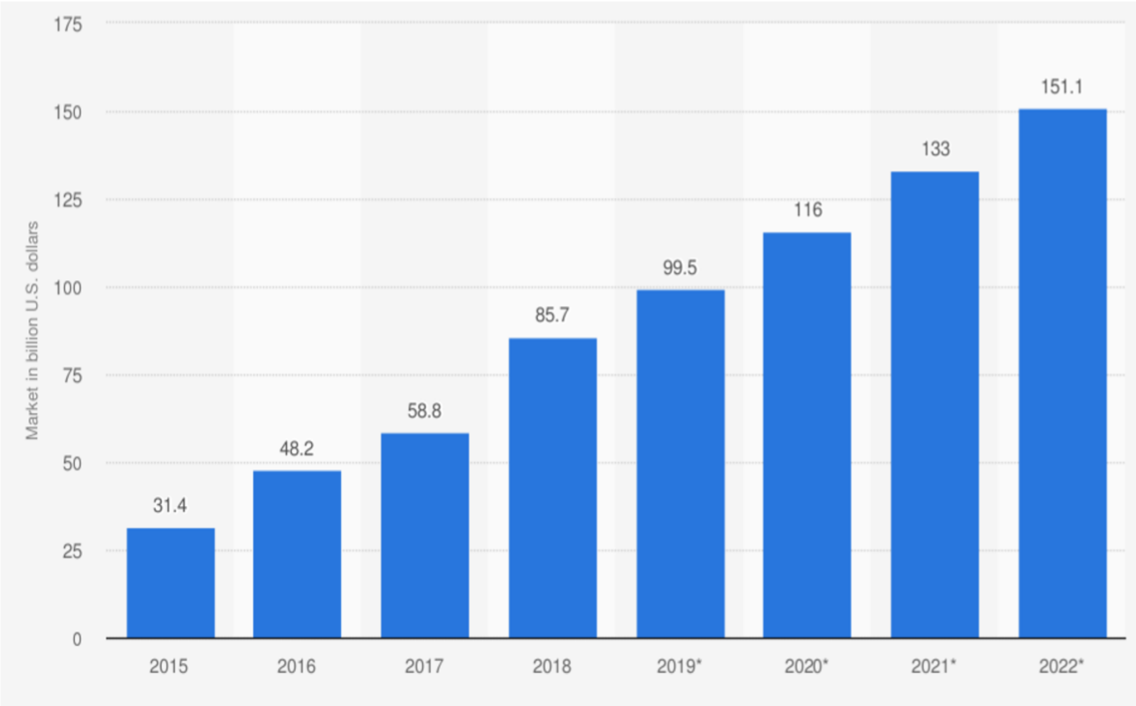
Source: Company

Exhibit 2 Orankl's pricing strategy

BASIC Free	PREMIUM $49/month	ENTERPRISE Contact Us
up to 50 review requests/month	**up to 500 review requests/month**	**Unlimited review requests/month**
Private messaging	Private messaging	Private messaging
Customizable review form	Customizable review form	Customizable review form
Support via email	Support via email	Support via email and phone
~~Smart Email Marketing~~	Smart Email Marketing	Smart Email Marketing
~~Improved SEO~~	Improved SEO	Improved SEO
~~Customize emails~~	Customize emails	Customize emails
~~Export reviews~~	Export reviews	Export reviews
~~Multi Language~~	Multi Language	Multi Language
~~Rich Snippets~~	Rich Snippets	Rich Snippets
~~White label solution~~	~~White label solution~~	White label solution
~~Custom Styling~~	~~Custom Styling~~	Custom Styling
~~Coupons to reviewers~~	~~Coupons to reviewers~~	Coupons to reviewers
~~24/7 phone and chat support~~	~~24/7 phone and chat support~~	24/7 phone and chat support
Start Now	Sign up for Premium	Contact Us

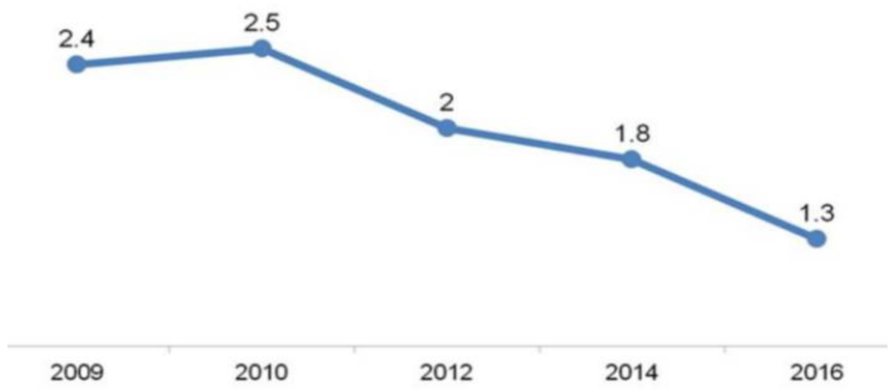
Source: Company

Exhibit 3 Public cloud application services/software as a service (SaaS) market revenues worldwide from 2015 to 2022 (in billion U.S. dollars)



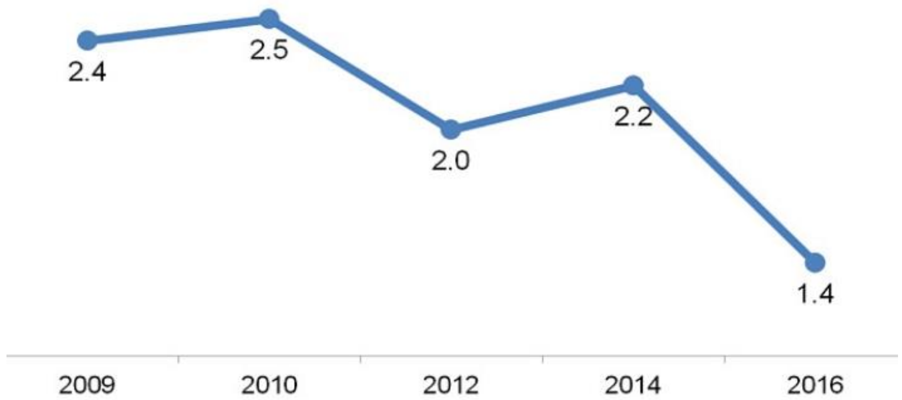
Source: Gartner

Exhibit 4 Average experience required at hire, in years



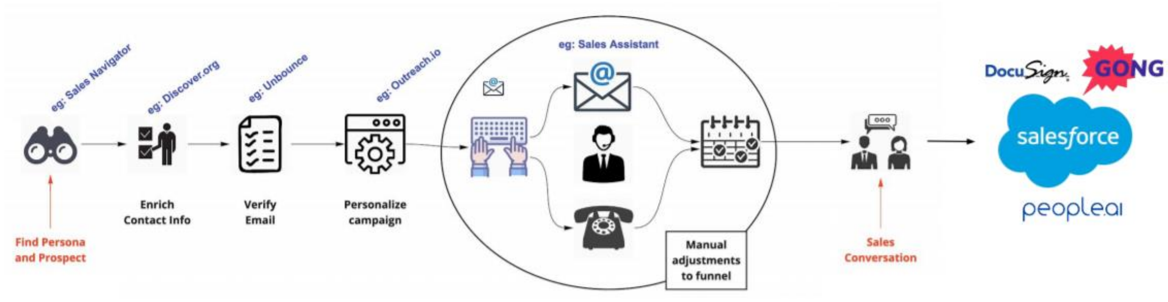
Source: The Bridge Group

Exhibit 5 Average tenure, in years



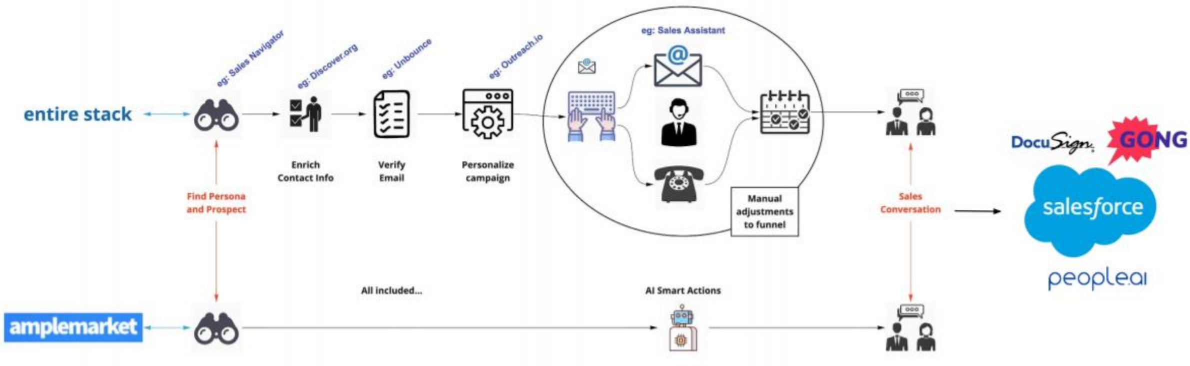
Source: The Bridge Group

Exhibit 6 Sales process



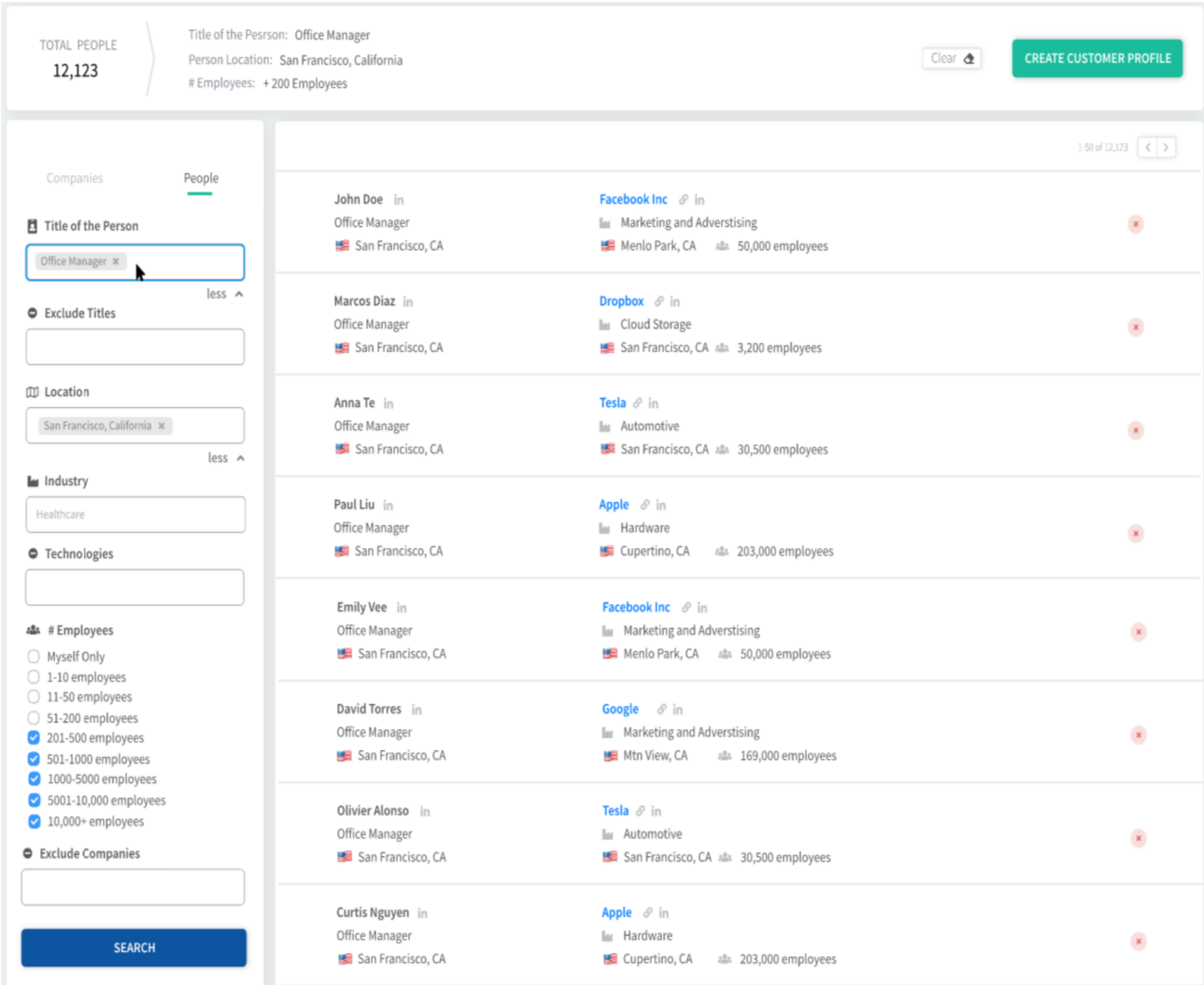
Source: Company

Exhibit 7 Sales process with Amplemarket



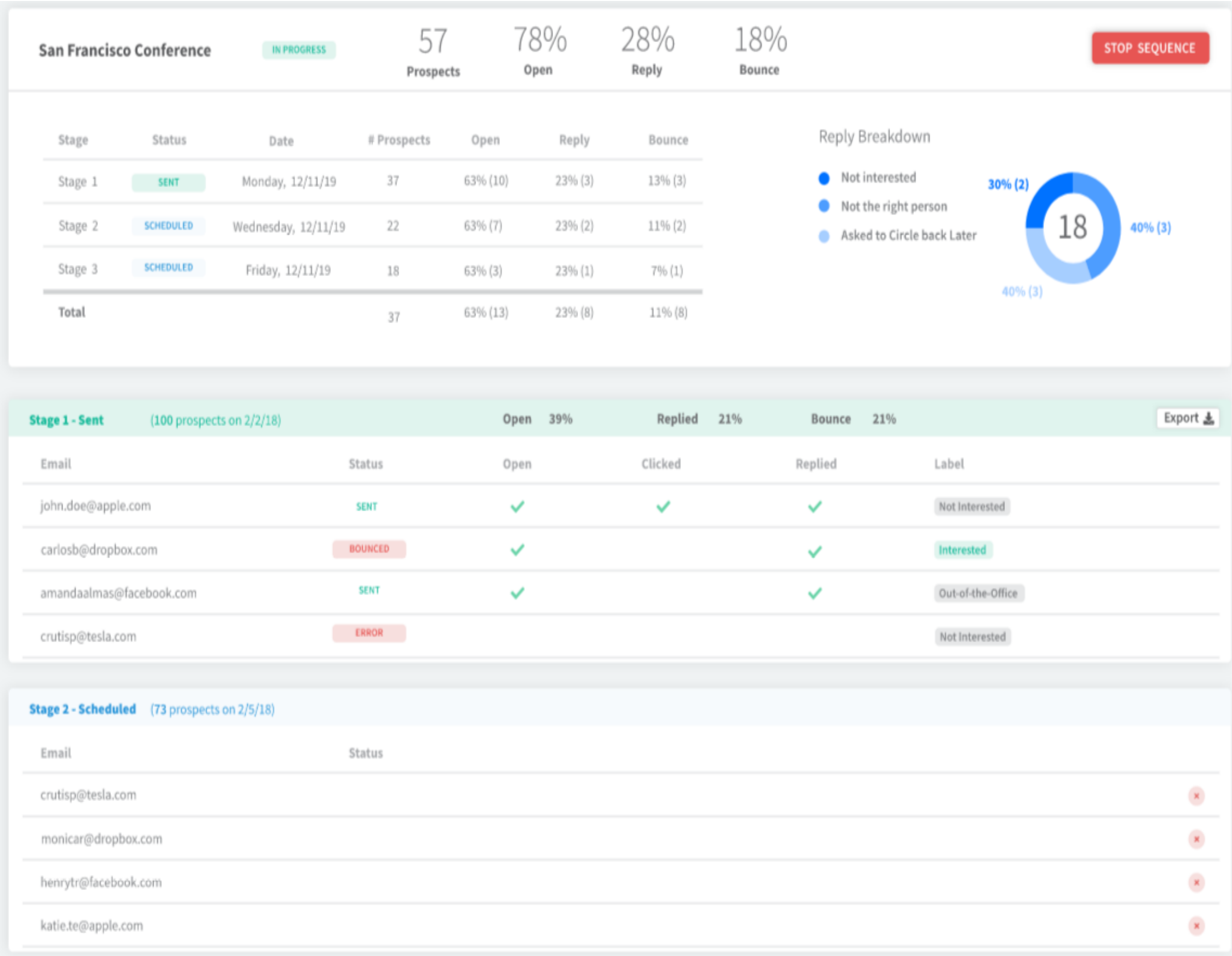
Source: Company

Exhibit 8 Lead generation example



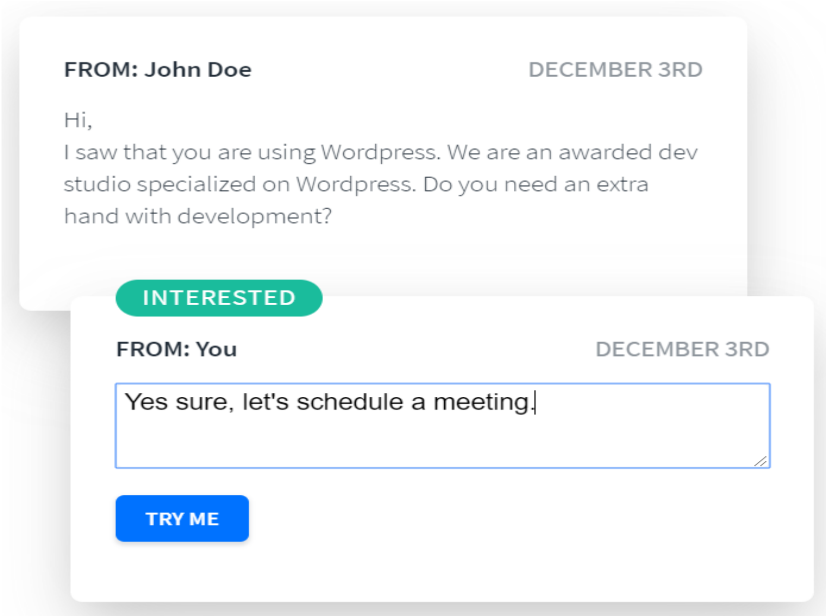
Source: Company

Exhibit 9 Control panel



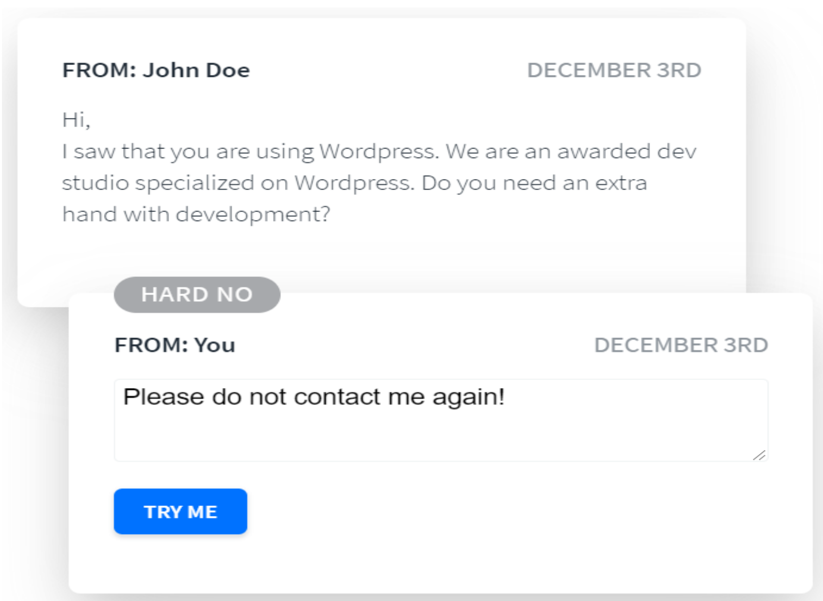
Source: Company

Exhibit 10a Demo of a Smart Action. Interested answer will trigger smart actions such as automatic response.



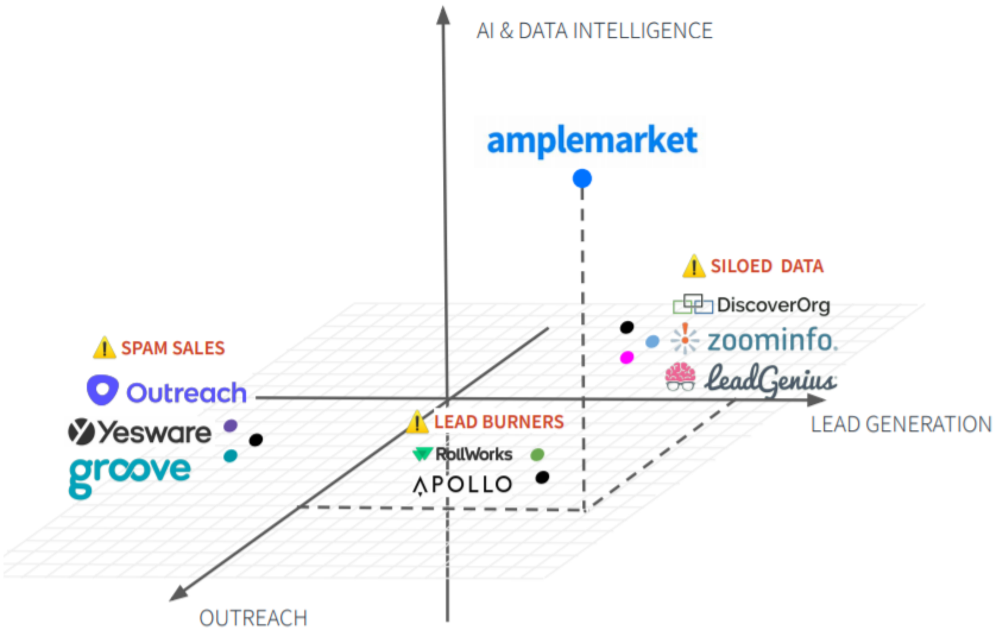
Source: Company

Exhibit 10b Demo of a Smart Action. Not interested answer will trigger automatic response such as adding the lead to a black list.



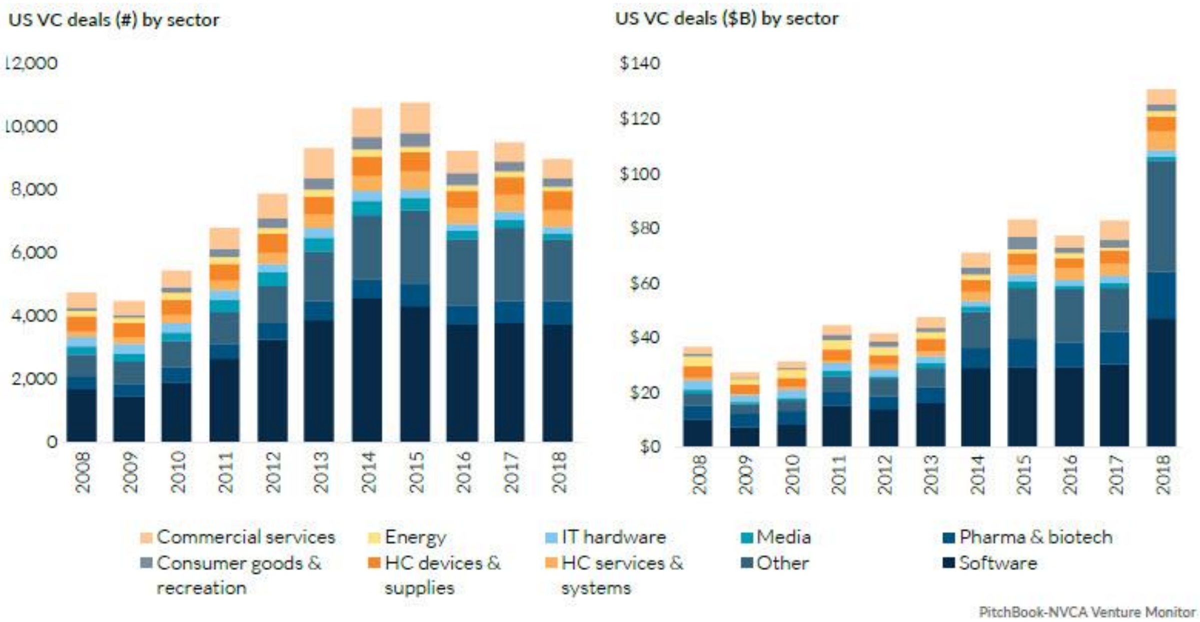
Source: Company

Exhibit 11 Amplemarket's competitors



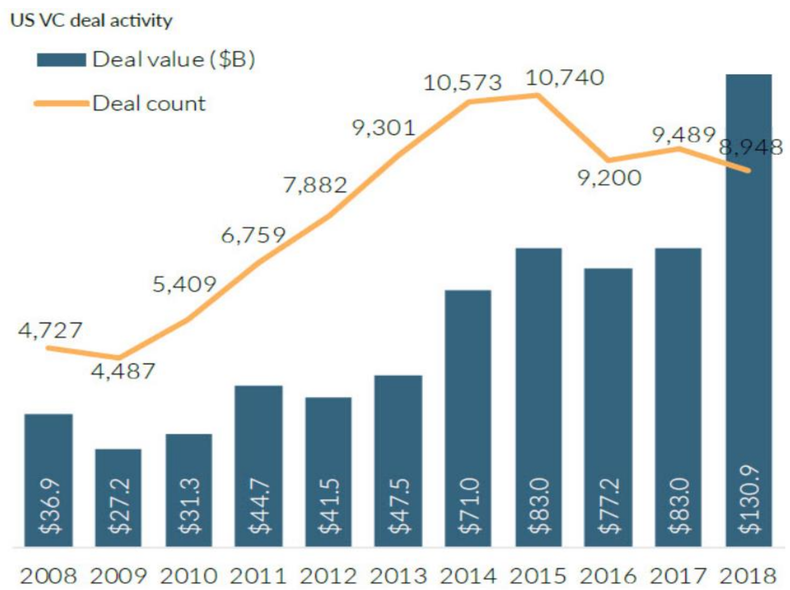
Source: Company

Exhibit 12 Software and Pharmatech & biotech are the industries that dominate dealmaking within the U.S.



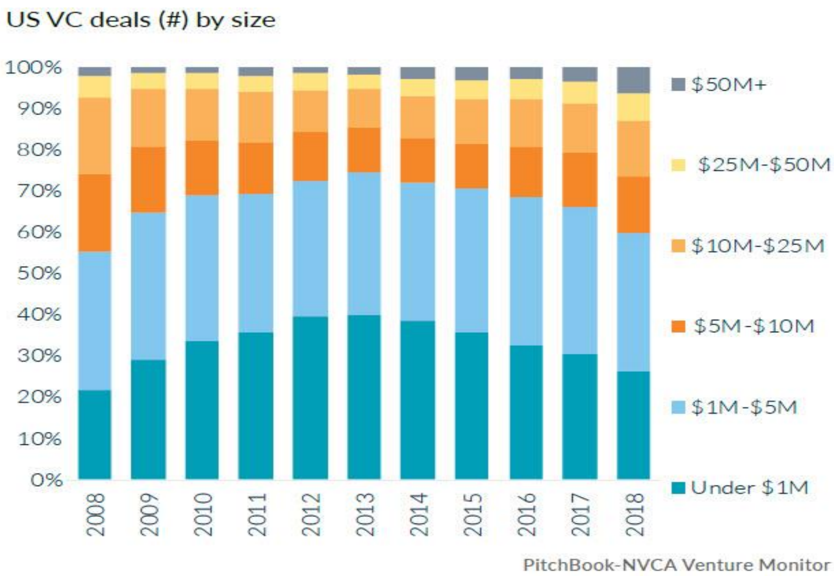
Source: NVCA Venture Monitor

Exhibit 13 Venture Capital deal activity in the U.S.



Source: NVCA Venture Monitor

Exhibit 14 Venture Capital proportion of deals



Source: NVCA Venture Monitor

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DATE: JANUARY,03, 2020

Amplemarket

Can sales be replaced by tech?

-Teaching Note-

Summary of the Case

The founders of Amplemarket, an AI powered sales assistant startup, have gone through many tough decisions. The first one was to leave behind what could have been successful careers to build their first startup (Orankl – a software that offered online merchants a review/comment system and product recommendations) and taking it to Y Combinator. Struggling with the intensity of the sales process (finding online merchants and selling the product), the three founders created a software that would do most of the process for them, finding the right leads and sending them automatic emails and responses. That was when the founders saw the potential of the new business so they decided to leave Orankl behind and open a new startup called Amplemarket.

Alongside some friends' startups, they spent two years building the best product for the marked and officially launched their final product in July 2019. However, the startup will need to raise capital given the cash burn implications from being in the Bay Area.

Possible Poll Questions

1) Management due diligence is a very important aspect for Venture Capital. What is usually required from VCs? How do you see Amplemarket's team?

2) Regarding the current situation of Silicon Valley's investments, what are the advantages and disadvantages of being cautious about growth?

3) What are the advantages and disadvantages of each one of the financing options? What would you say is the best option for the founders? Can you name another viable financing option?

4) Should the founders use Fermat's Library as a revenue source to fund Amplemarket? How could they do so? Would it be enough?

5) Should the founders keep the headquarters in San Francisco or should they place it somewhere else?

Suggested Answers

Management due diligence is a very important aspect for Venture Capital. What is usually required rom VCs? How do you see Amplemarket's team?

When venture capital investors are doing due diligence, they focus carefully on the financial side of the business. Does the company have an interesting business model? What are the growth plans of the company? How big is the addressable market? They hire expensive experts and use advanced data tools to answer these questions and ensure that every financial detail is on the table. However, when it comes to evaluating the startup team, gut feel and intuition tend to be the main due diligence instruments that they use. This isn't the best approach given the fact that data from Harvard Business School shows us that 60% of new ventures fail due to problems with the team. [1]

Sam Altman, founder of the prestigious Y Combinator accelerator, says "mediocre people at a big company cause some problems, but they don't usually kill the company. A single mediocre hire in the first five will kill a startup." That is why it is important for a startup to have a good team.

Although characterizing a team is very subjective, there are certain traits that people agree works well:

1) Teams of two to three founders. "My favorite analogy for one founder versus two or more is that it's possible to raise a child as a single parent, but vastly more challenging and personally taxing to get the same outcome" said Drew Houston, founder and CEO of Dropbox. According to the Startup Genome Report, solo founders, on average, take 3.6 times longer to scale when compared to startup teams of two or more [2]. It also found

that teams were more likely to attract investors, and experience success in comparison to solo founders.

2) Complementary in skills. One of the reasons why startups with two to three founders are preferred is because they can complement their skills. For example, having one CTO, one CEO and one CFO is the perfect division of tasks. Also, there is no point in having more people in the team if you are just replicating yourself. Therefore, diversity is considered to be key for success in startups.
3) Previous experience working together. Knowing your partners when in a start-up is essential and you never really know how someone works until you work with him.

Amplemarket's founders are a team of three who know each other for a long time. Luis and João are brothers and Mica was working partner of Luis for a long time in University. They fill the criteria both on number and past experience. Yet, they have a very similar background. All of them are engineers and despite Luis's internship in private equity, none of them had any experience in marketing or sales. Was this a real struggle for them?

When Luis, João and Micael founded Orankl, they were all in the same field, programming and product design. "I remember the first time we sold our Orankl product. We sent a couple of emails and within 20 minutes we had our first reply. For an experienced person in the field of sales this would be a very good sign but our thought at the time was "where are the other replies", which is an absurd thought. I would certainly had appreciated someone who had helped us at the time with most of these problems we didn't know how to handle" Recalled Luis.

There is one area that they struggled more than any other; sales. Not only were they inexperienced, but they also had to do it often. Searching for the best leads and sending them the perfect emails was a huge struggle for the founders. Yet their programming knowledge gave them the opportunity to create a solution for this lack of experience. Together, with their common skill, they created a software which would solve most of their selling problems and ultimately giving birth to a new business. Therefore, we can say that in this specific case, the fact that the founders were all from the same background, played as an advantage for them.

Regarding the current situation of Silicon Valley's investments, what are the advantages and disadvantages of being cautious about growth?

As more and more money come into Silicon Valley, it is inevitable that valuations get inflated. WeWork, an office-sharing firm, pulled out its IPO when public investors saw the price tag. A bail-out by SoftBank, WeWork's main backer, valued the firm at $8 billion. Yet a funding round in January put the firm's value at $47bn [3]. The damage done by SoftBank is tremendous. If you make a firm go faster than it is supposed to, it will behave unnaturally. There is a growing sense within the Bay Area that capital is being wasted. There are many businesses that shouldn't be funded are getting funded. Furthermore, sales and marketing budgets are swollen and firms lose track of whether their product is any good. Today, according to Jay Ritter of the University of Florida, "84% of companies pursuing IPOs have no profits".

There is an explanation for this. Startups need scale to become global leaders and thanks to the internet, ideas spread quickly. Therefore, the ones that are not fast enough will get caught by competition. The fastest-growing firms, like Uber and WeWork, "blitzscale", meaning they attempt to disrupt a whole industry before anyone can stop them, raising enormous amounts of capital to acquire users. The pioneers of this, such as Facebook in America and Tencent in China, have become so valuable that everyone wants to copy this strategy.

In fact, growing fast is now easier thanks to smartphones, social media and cloud computing, which let startups spread around the world. Also, low interest rates left investors (pension funds, hedge funds and even venture capitals) chasing returns. Therefore, suddenly tech became all about applying this strategy to as many industries as possible, using huge amounts of money to speed up the process.

When it comes to Amplemarket, the founders always had a cautious approach about growth. Not only because the market is now shifting into this new approach but also because they believe that raising money in future rounds and even in IPO with a profitable and scalable business model is much easier. Yet, this might come with a price. Competitors such as Outreach and Apollo are getting closer to Amplemarket's product and the early mover advantage in this industry is crucial. Such as sales force and SAP who have most of the market share, gained with the early mover advantage because of two things: First, more clients mean more data which also means that your software will be better than the. Second, because these softwares usually need training. Changing from one software to another is really difficult. Furthermore, if the software is good, scaling it within the company is a natural process.

We can say that Amplemarket is in a good path for a capital raise given the fact that they have a profitable and easily scalable product but they need to do it fast in order to take advantage of being the first company with this unique product.

What are the advantages and disadvantages of each one of the financing options? What would you say is the best option for the founders? Can you name another viable financing option?

There are a few options that the founders might consider to raise capital. Yet, seed funding, series A and crowdfunding are the most probable ones.

In the seed funding option, there are many ways to raise capital: Venture Capitals, Angel investors and even family and friends. There are some advantages when choosing to raise capital with VCs over the rest. First, the amount of capital raised is normally higher. This means that if you are aiming to grow fast, this is a huge advantage. Yet, Amplemarket has a clear goal of growing cautiously within the first stage of the product. Second, it's a very good signaling effect going into future rounds and even acquiring clients when a VC trusts you and invests on you. Third, the networking of a VC is usually much better and powerful than any Angel. This would be a huge advantage for Amplemarket to acquire clients.

Despite some of the advantages of raising with a VC, the fact that Amplemarket is not looking for exponential growth in this first stage means that going with this option might not be the best idea. Even if they manage to raise a small amount of money from a VC, the urge to spend that money is very high. Also, raising capital in such an early stage is getting harder (see **Exhibit 14**).

Therefore, going with the option of Angel investor to raise capital seems like the most reasonable one. Not only because the amount raised is lower but also because the pressure of returns is not as high as with VCs, given the fact that the LPs are the Angels. Also, Silicon Valley is known to have many valuable investors such as Ron Conway, Dave McClure, Reid Hoffman and many more who are a big influence in the tech market and can offer valuable insight and networking.

Although seed funding is the option that the founders like the most, Series A is also in the back of their head. It would not be considered for the near future given the growth limitation imposed by the founders. Yet, the founders have the option of waiting until their business model is already fit for higher growth rates. This option would have the same advantages as going with a VC in seed funding but it would have a higher amount raised which in the case of being ready for higher growth rates would be an advantage.

The option of crowdfunding is also one to consider, given the founders situation: decreasing amount of seed funding investments (see **Exhibit 14**), not wanting to give up equity and most importantly not having the pressure for rapid returns. There are many ways to do so and one of the most well-known ways is equity and debt crowdfunding where we have Angellist and Wefounder which are platforms where investors meet startups. Although this financing method is similar to the seed funding with angel investors. Yet, there are other types of crowdfunding which are: donation-based and rewards-based where there are platforms such as Kickstarter and Indiegogo. However, this is not the usual platform where software startups raise money and that is why Amplemarket should consider either equity or debt crowdfunding where they might find better deals than going with a usual Angel investor. If the founders decide to take this option, most likely there wouldn't be any networking and know how advantages.

There are many other options that the founders can consider. Although one stands out from all the rest: bank loan. On September 12 Mario Draghi, went from -0.4% to -0,5 interest rates and resumed quantitative easing (the lowest it has ever been, see 10y data in **Exhibit 15)**. This means that investors are not the only ones looking for higher interest rates and look for more alternatives such as hedge funds, private equity and venture capital. Banks on the other hand, are also looking for ways to charge higher interest rates and are willing to lend money given the fact that depositing money at the European Central Bank will have a cost.

However, it's very unusual for banks to lend money to entities that don't have a proven business model such as Amplemarket. But there are two things that might help the founders in this case. First, they are Portuguese and have office in Portugal which means they qualify for an easier European loan. Second, the startup is profitable since day one and has solid growth projections.

Should the founders use Fermat's Library as a revenue source to fund Amplemarket? How could they do so? Would it be enough for now?

Using Fermat's as a revenue source would be a solid option given the fact that they could get funding free of charge. But Fermat's is a non-profit organization which means users will not be much agreeable if it suddenly started charging. However, there are other ways to act in these situations such as asking for donations.

Fermat's accounts for 17 million users per month and such as Khan Acadamy which has approximately 18 million monthly users and is one of the biggest free online schools in the world, they can make money from donations. According to Khan Acadamy's financial report, 56.5% of their capital raised (approximately 50 million in 10 years) come from individual donations, see **Exhibit 16** [4].

It's hard to predict how much Fermat's could raise with this type of fundraising strategy. Yet, the amount that the founders seek for this first stage is around $1 million which would mean that if only 6% of the total amount of users donated $1, that would be enough. If the founders happen to succeed, Amplemarket could use that money to grow until the next stage of financing, which would probably be a series A. Therefore, the founders could benefit from a free of charge capital raise.

Should the founders keep the headquarters in San Francisco or should they place it somewhere else?

The Bay Area is known to be the world's best-known technological hub and it is no coincidence that they have three of the ten most valuable enterprises in the world. Also, this region has the 19th-largest economy in the world, ranking above Switzerland and Saudi Arabia [5].

However, staying might not be the best option. First, the cost of living in the Bay Area, is extremely high. A median-priced home costs $940,000, four-and-a-half times the American average [6]. Even billionaire Peter Thiel, co-founder of PayPal and one of the most recognized venture capitalists in the world, can't stomach the high cost of living in Silicon Valley. The vast majority of capital he pours into Bay Area startups goes to landlords and urban slumlords. "At some point does it just get so expensive that it doesn't quite work?" Thiel asked. "You have to very quickly make money just to make the rents" said Theil during an appearance in Club of New York. Also, the venture capitalist intends to take up his own advice. Recently announcing that he plans to move from Silicon Valley to Los Angeles, where the rents are lower and the populace "more tolerant".

Second, despite not being the same as working in person, the Bay Area's own products and services make it ever easier to start out elsewhere, or everywhere. Being connected to Silicon Valley's culture through messaging, video-conferencing and collaborating online and changing the way companies work. This technology is making it easier to be in the Valley while keeping most or almost all of your workforce elsewhere. This is how Amplemarket currently operates, with administrative positions in San Francisco and roles like developers, account executives and customer support are in Lisbon. Yet, this brings some communication problems because of the 8-hour time difference.

Third, startups, particularly those in the tech business, find it harder to attract capital in the shadow of Alphabet, Apple and Facebook. In 2017 the number of early stage rounds in America was down by around 22% from 2012 [7]. Also, Alphabet and Facebook pay their employees huge amounts. Therefore, startups struggle to attract talent (the median salary at Facebook is $240,000) [8]. When a startup's success are less certain and the payoffs not so very different from a steady job at one of the tech giants, dynamism suffers.

Fourth, the rising anti-immigrant sentiment and tighter visa regimes, introduced by President Donald Trump have economy-wide effects because foreign entrepreneurs create around 25% of new companies in America [9]. This not only decreases the innovation level of the Bay Area but also, has a tremendous impact in the salaries, as companies have to pay more.

With the rise of people and startups escaping from the Bay Area, not only will the startups struggle to find more talent but also, capital will get harder to get. The choice of moving somewhere else might just be one to seriously consider. Yet, Amplemarket's costumers and potential customers are manly from the still leading technological hub in the world. Moving to Los Angeles as did Peter Theil and many other startups might be a good option given the proximity of the Bay Area.

Endnotes Teaching note:

[1] What Makes a Successful Startup Team. (2019, March 21). Retrieved form https://hbr.org/2019/03/what-makes-a-successful-startup-team

[2] Startup Genome Report. (2012, March). Retrieved from https://s3.amazonaws.com/startupcompass-public/StartupGenomeReport1_Why_Startups_Succeed_v2.pdf

[3] Softbank eyes WeWork rescue valuation bellow $8 billion. (2019, October 18). Retrieved from https://www.bloomberg.com/news/articles/2019-10-18/softbank-is-said-to-eye-wework-rescue-valuation-below-8-billion

[4] Khan Academy 2018 Financial Report. Retrieved from https://khanacademyannualreport.org/

[5] "Immense growth" makes the Bay Area the world's 19th-largest economy, if it were a nation. (2018, July 11). Retrieved from https://www.mercurynews.com/2018/07/10/immense-growth-makes-bay-area-worlds-19th-largest-economy-google-facebook-apple-adobe/

[6] Housing in San Francisco Is So Expensive Some People Live on Boats. (2019, May 16). Retrieved from https://www.wsj.com/articles/housing-in-san-francisco-is-so-expensive-some-people-live-on-boats-11557999002

[7] Why startups are leaving Silicon Valley. (2018, August 30). Retrieved from https://www.economist.com/leaders/2018/08/30/why-startups-are-leaving-silicon-valley

[8] The median pay at Facebook is more than $240,000 a year. (2018, April 17) Retrieved from https://www.businessinsider.com/facebook-median-pay-240000-2017-2018-4

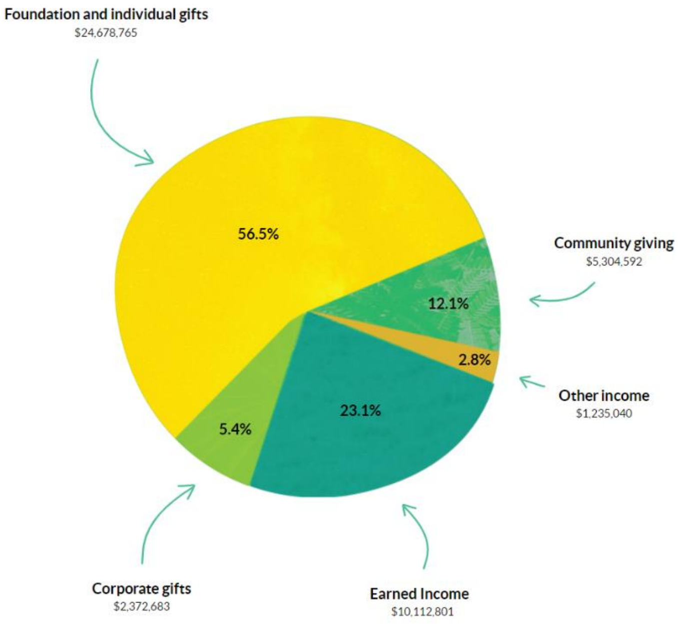
[8] Immigrant Entrepreneurship in America: Evidence from the Survey of Business Owners 2007 & 2012. (2019, July). Retrieved from https://www.nber.org/papers/w24494?utm_campaign=ntw&utm_medium=email&utm_source=ntw

Exhebit 15 Data form last 10 years intrest rates

Date		Deposit facility	Main refinancing operations		Marginal lending facility
			Fixed rate tenders Fixed rate	Variable rate tenders Minimum bid rate	
With effect from					
2019	18 Sep.	−0.50	0.00	-	0.25
2016	16 Mar.	−0.40	0.00	-	0.25
2015	9 Dec.	−0.30	0.05	-	0.30
2014	10 Sep.	−0.20	0.05	-	0.30
	11 Jun.	−0.10	0.15	-	0.40
2013	13 Nov.	0.00	0.25	-	0.75
	8 May.	0.00	0.50	-	1.00
2012	11 Jul.	0.00	0.75	-	1.50
2011	14 Dec.	0.25	1.00	-	1.75
	9 Nov.	0.50	1.25	-	2.00
	13 Jul.	0.75	1.50	-	2.25
	13 Apr.	0.50	1.25	-	2.00
2009	13 May	0.25	1.00	-	1.75
	8 Apr.	0.25	1.25	-	2.25
	11 Mar.	0.50	1.50	-	2.50
	21 Jan.	1.00	2.00	-	3.00

Source: European Central Bank

Exhibit 16 Khan Academy's Revenue Source



Source: Khan Academy