Sources of Financing for Autoshop In-Class Activity

Students: **Click on "file," then "make a copy" or "download as." Share** 

your completed doc with profcraigarmtrong@gmail.com.

Your Team Members:

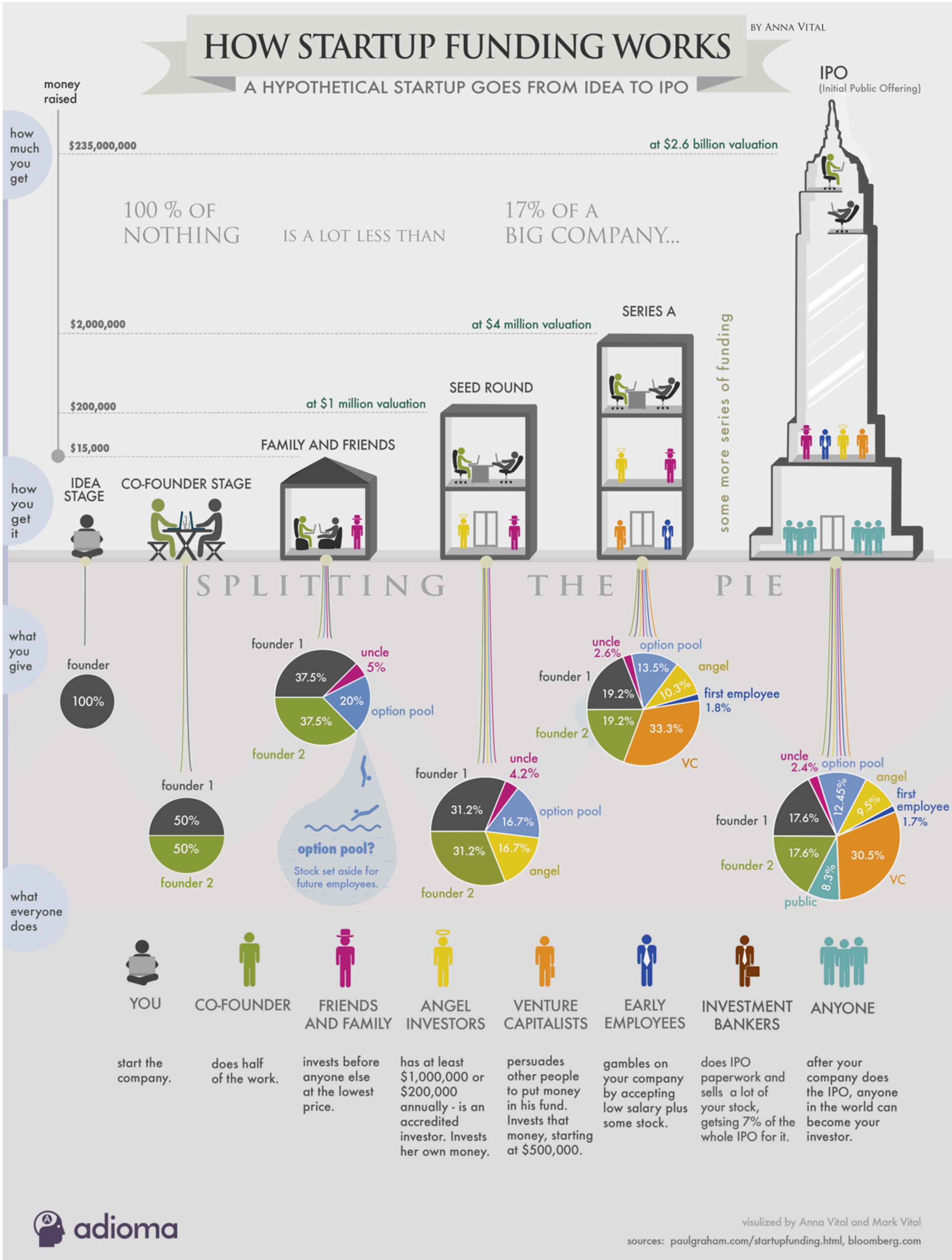
"Autoshop is for boys, dads, and toy cars what Build-A-Bear Workshop is for girls, moms, and stuffed animals"

This evaluation activity of Autoshop is an illustration of how entrepreneurs can use **analogs** as sources of new business ideas. **Analogs are businesses that are like yours, but offer a slightly different value proposition or target a different specific customer segment, but deliver it in substantially similar ways are therefore expected to have similar financial statement structures and, by extension, similar levels of success.** Autoshop is certainly an analog of Build-A-Bear Workshop.

Autoshop is a useful business to study because it sells a tangible product in a tangible physical space and targets a specific segment of customers the team believes will benefit from Autoshop's value proposition.

In this activity you will watch a business plan video presentation by Autoshop from the MOOT Corp business plan competition in 2003 and take notes - like a Shark Tank Shark! - that will help you answer questions to evaluate what milestones Autoshop should prioritize across its rounds of financing. You will form teams to answer and submit the questions at the end of this document on what they need to do & which milestones they should achieve.

First, let's remind ourselves of the stages of financing most high potential growth firms follow. Your job will be to listen to the Autoshop presentation and then determine which milestones should be achieved with the money Autoshop gets in a particular round of financing.


HOW STARTUP FUNDING WORKS
BY ANNA VITAL
A HYPOTHETICAL STARTUP GOES FROM IDEA TO IPO
money raised
how much you get
$235,000,000
at $2.6 billion valuation
100 % OF NOTHING
IS A LOT LESS THAN
17% OF A BIG COMPANY...
$2,000,000
at $4 million valuation
$200,000
at $1 million valuation
$15,000
IPO
(Initial Public Offering)
SERIES A
SEED ROUND
FAMILY AND FRIENDS
some more series of funding
how you get it
IDEA STAGE
CO-FOUNDER STAGE
SPLITTING THE PIE
what you give
founder
100%
founder 1
50%
50%
founder 2
founder 1
37.5%
uncle
5%
20%
option pool
37.5%
founder 2
option pool?
Stock set aside for future employees.
founder 1
31.2%
uncle
4.2%
16.7%
option pool
31.2%
16.7%
angel
founder 2
uncle
2.6%
option pool
13.5%
angel
10.3%
founder 1
19.2%
first employee
1.8%
19.2%
33.3%
founder 2
VC
uncle
2.4%
option pool
angel
12.45%
first employee
1.7%
9.5%
founder 1
17.6%
17.6%
30.5%
founder 2
8.3%
VC
public
what everyone does
YOU
start the company.
CO-FOUNDER
does half of the work.
FRIENDS AND FAMILY
invests before anyone else at the lowest price.
ANGEL INVESTORS
has at least $1,000,000 or $200,000 annually - is an accredited investor. Invests her own money.
VENTURE CAPITALISTS
persuades other people to put money in his fund. Invests that money, starting at $500,000.
EARLY EMPLOYEES
gambles on your company by accepting low salary plus some stock.
INVESTMENT BANKERS
does IPO paperwork and sells a lot of your stock, getsing 7% of the whole IPO for it.
ANYONE
after your company does the IPO, anyone in the world can become your investor.
adioma
visulized by Anna Vital and Mark Vital
sources: paulgraham.com/startupfunding.html, bloomberg.com

Let's watch the video! 🎉(browse to the Autoshop page for video)

As you listened to the Autoshop presenters, you would have concluded these facts or assumptions they have for assessing their venture's success:

What Autoshop knows about its customer:
"We've tested this concept with some focus groups, boys 5 through 11, as well as their parents. So far, the response has been very, very positive."

What Autoshop knows about its market:

1. "Toy market was $23 billion last year"
2. "Vehicle toy market is also large, with sales last year of $1 billion and growing at 8.6% per year"
3. "The number one toy still selling in America is the Matchbox car"
4. Traditional retailers (Toys R Us, WalMart, Target, KB Toys: wide selection of products at a low price (low-cost category)
5. Recently the trend has been toward "Entertainment retailing: Club Libby-Lu, Color Me Mine, and Build-A-Bear (differentiation category)

- Autoshop positioned in Entertainment Retailing as only store targeted to boys

What Autoshop believes about its product and customer behavior:

- Items in store range from $2 to $200
- Average customer will spend $57 per transaction
- 40% of sales will be the customized remote-controlled car
- "Product pricing has been validated with our potential sourcing partners"
- Trained associate in mechanic's uniform leads customers through experience
- "Retail associates will build the car for you"
- Personalize with stickers, DMV registration, "off to the track"
- As customer prepare to leave, POS includes upgrades to upsell transaction

Now let's consider these lists of milestones Autoshop will actually need to achieve in order to grow into a multi-store business like Build-A-Bear Workshop.

Some milestones for Autoshop to achieve, but when?

Business milestones

- Establish legal entity (c-corp, s-corp, llc, etc.)
- Set-up business bank account
- Sign up for accounting software
- Launch company website
- Create startup pitch deck*
- Determine how much you need to generate in revenue to work on your startup full time
- Hire key people (e.g. awesome marketing person)

Product milestones

- Create a working prototype
- De-bug prototype
- Launch Minimum Viable Product
- Private Beta
- Public Beta
- Official launch

Customer milestones

- Engage in customer discovery
- Engage in customer development
- Establish market validation aka sign up a few paying customers for "private" Autoshop (e.g., for birthday parties)
- Launch grand opening to all customers
- Focus on daily and monthly growth rates (get to 100, 1,000, 10,000, 100,000 cusomers)

Taking into account what you know about Autoshop objectively and what the founders believe, write in at least one business, product, and/or customer milestone Autoshop should complete at each stage of its financing. Remember that achieving product market fit (PMF) is the goal of the angel round financing. Everything else is up to you! Refer to [our lecture slides as needed](#).

Source of financing	Business milestone	Product milestone	Customer milestone
Founder			
Co-Founder			
Friends & Family			
B-Plan Comp			
Angel Investor		Achieve PMF	
VC Investor			

Summary Questions for you to answer

1. Is equity from a professional investor an appropriate way to finance this company at this stage? From what type of investor should they be seeking money at this stage?

2. What assumptions do they make that you would like to test first using a milestones and rounds of financing approach?

3. What would you do to make stronger connections between rounds of financing, growth, and milestones that you believe Autoshop should do? (e.g., finance the store and senior management hire? Something else?)

You're done! Please share your completed document with profcraigarmstrong@gmail.com.