The Entrepreneurial Problem

For Profit / Social / Otherwise

- Goals are rarely well known & specified
- The future is extremely unpredictable
- People don’t ‘follow instructions’
Effectual vs. Predictive Logic

Distinguishing Characteristic Of Predictive Logic:
Selecting various means to achieve pre-determined goals

New means may be generated over time
Effectual vs. Predictive Logic

Distinguishing Characteristic of Effectuation:
Imagining & Selecting various goals using a given set of means

What CAN we do, rather than what SHOULD we do.
Effectuation

- Definition of one of several possible markets
  - Adding Segments/Strategic Partners
    - Segment Definition (through strategic partnerships & “selling”)
    - Market Definition
    - Segmentation (using relevant variables such as age, income, etc.)
    - Targeting (based on evaluation criteria)
    - Positioning (through mktg strategies)
    - Customer Identification (through Who am I? What do I know? Whom do I know?)
    - Segment Definition (through strategic partnerships & “selling”)
  - Effectuation as Used by Expert Entrepreneurs
  - THE CUSTOMER
  - Causation Model from Expert managers
Why would I try to predict a future I can’t control, when I can work to control a future you can’t predict?

⇒⇒⇒⇒CO-CREATE

**Predict:** efforts to position the venture for success based on forecasts of important market elements.

**Control:** efforts to directly create important market elements, in order to lead the venture to success.
## Effectual Decision Making

| 1. Where to Start | **Assess Your Means.** Take action based on what you have available:  
* Who I am  
* What I know  
* Whom I know  
Example: I have person A, I can achieve X, Y, or Z | **Set a Goal.** Goals determine actions. For example, the goal of achieving X, will dictate I need person A with skills matched to X. |
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<thead>
<tr>
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<tbody>
<tr>
<td>2. Risk, Return and Resources</td>
<td><strong>Set Affordable Loss.</strong> Pursue interesting opportunities without investing more resources than you can afford to lose. Set a limit on downside potential.</td>
<td><strong>Calculate Expected Return.</strong> Pursue the (risk adjusted) largest opportunity and accumulate required resources. Maximize upside potential.</td>
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<td>3. Attitude Toward Outsiders</td>
<td><strong>Form Partnerships.</strong> Grow. Strategy is created jointly through partnerships to create new opportunities.</td>
<td><strong>Perform Competitive Analysis.</strong> Protect. Strategy is driven by potential competitive threats.</td>
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<td>4. Contingency</td>
<td><strong>Leverage Contingencies.</strong> Surprises are good. New developments encourage imaginative re-thinking of possibilities and continual transformations of targets.</td>
<td><strong>Avoid Contingencies.</strong> Surprises are bad. Contingencies are managed by careful planning and focus on targets.</td>
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<td>5. Approach</td>
<td><strong>Transformative.</strong> The future as shaped (at least partially) by actions of all players. Prediction is neither easy nor useful.</td>
<td><strong>Predictive.</strong> The future is a reliable continuation of the past. Accurate prediction is possible and useful.</td>
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Yan Cheung, ACN to Nine Dragons, transformation, $3,800, 10 years.
Yngve Bergqvist, Ice Hotel, contingency, co-creation, affordable loss.
Take Stock of your means: who, whom, what.

What can you do for near zero; Or where you can afford to lose?

What commitments have you attracted and followed?

What surprises are you taking advantage of so far?
Returns to Invested Capital

- Smaller venture deals do get to exits
- The returns to those deals are quite attractive

<table>
<thead>
<tr>
<th>Paid In Capital Range</th>
<th>Deal Count</th>
<th>Median Price</th>
<th>Median Paid in Capital</th>
<th>Median Multiple</th>
<th>Sum of Price</th>
<th>Sum Paid In Capital</th>
<th>Aggregate Multiple</th>
<th>Aggregate Profit</th>
<th>Profit $'s per deal</th>
<th>Hypothetical ROI</th>
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<tbody>
<tr>
<td>$5M-$100M</td>
<td>322</td>
<td>60.3</td>
<td>14.0</td>
<td>3.5</td>
<td>34,914</td>
<td>8,260</td>
<td>4.2</td>
<td>26,654</td>
<td>82.8</td>
<td>20%</td>
</tr>
<tr>
<td>under $5M</td>
<td>1,359</td>
<td>10.3</td>
<td>0.2</td>
<td>53.6</td>
<td>35,741</td>
<td>931</td>
<td>38.4</td>
<td>34,810</td>
<td>25.6</td>
<td>48%</td>
</tr>
<tr>
<td>Whole Sample</td>
<td>1,530</td>
<td>14.8</td>
<td>0.5</td>
<td>24.5</td>
<td>70,655</td>
<td>9,192</td>
<td>7.7</td>
<td>61,463</td>
<td>40.2</td>
<td>29%</td>
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Includes ONLY deals with a MULTIPLE OF AT LEAST 1
Includes ONLY deals with complete data (70% of transactions)

ROI equates if 3 and 7 year holding periods
ROI equates if smaller deals fail 91% of the time
Cognitive Matching: Investors & Entrepreneurs

Conjoint analysis of VC investment evaluation.

Simultaneous manipulation of preferences

Economics: Hi Potential vs. Moderate
Social Capital: Strong rep and Referrals vs. Moderate
Entre Mindset: Effectual vs. Causal

1. The match between VC’s and Entre’s significantly increased funding

2. Social Capital and Match were jointly as ‘powerful’ as the economics
Angels who focus on Effectuation: experience fewer failures, equal homeruns.

## Distribution of Returns by Venture Investment

<table>
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<tr>
<th>Exit Multiple</th>
<th>UK: % of exits in that Category</th>
<th>US: % of exits in that Category</th>
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<tbody>
<tr>
<td>&lt;1X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1X to 5X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5X to 10X</td>
<td></td>
<td></td>
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<tr>
<td>10X to 30X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;30X</td>
<td></td>
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### Overall Multiples
- UK: Overall Multiple: 2.2X
- US: Overall Multiple: 2.6X