Time and Money

SmartUp Foundations Course - Lecture 14

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The VCs themselves say that 1 out of 10 succeeds. And if 1 out of 10 succeeds, they do so well that they cover the expense of all the other nine that failed and even make more money. So from the VC perspective, they are a great success. The question is what about the founders, what about the companies? If you look at the same sentence spelled slightly differently, not one out of ten succeeds, but nine out of ten fail. That starts to be much more interesting. Nine out of ten companies fail. The question of course is why do they fail? This CB Insights did survey for 101 companies and they got these answers. Don't worry about reading them, but if you add up all the percentages you will realize that we get to about 300%.

If you get to about 300%, I would assume that many people filled up three answers at least or something like that. There are many reasons. And when there are many reasons, people give you a lot of answers, then basically they don't have the real answer. They blame this and they blame that and were not ready and the market was full and all of that stuff. But so many answers mean there is no answer why they fail. Let's look at it from the VC firms. They see hundreds of companies every year. When we talk to them it's anywhere between 2 to 300 to 1000 companies that they talk to or see every year. At the end, they invest in somewhere between two to four companies every year.

Okay, so they do due diligence, they interview, they check, and at the end they choose two to three out of a few hundred just to make sure they invest in the top of companies. However they do the selection and however they do the screening, they clearly they look for superb teams with extraordinary talent. They interview them, they do due diligence, huge potential market and a disruptive solution for a big problem. These are their criteria and they put the team as number one. So they choose the best of the best and yet 9 out of 10 fail. 9 out of 10 fail. So if 90% of well funded talented teams fail, there must be a root cause. You can't really blame everybody as an idiot. Let's just be realistic.

They chose the best people possible, they poured tons of money on them, they believe that this is a huge problem, they believe there is a market, that they have a great solution and 9 out of 10 fail. There must be something far more fundamental that caused all of these companies to fail. So the root cause in my mind can be summed up in one word. They basically don't have enough time to succeed. Really, if you look at it, if you look at all the answers that people gave, at the end of the day, they just didn't have enough time to succeed. Because building a new company from scratch is a very long process. Many of you here did it already and you know how much effort goes into it. And a lot of it is trials and error.

Because you do something new, it's a new team. You hire people. People are difficult. You talk to potential customers, they don't know what you're talking about. You don't understand how to sell, how to package what the product does. Gazillion things that are trial and error. And when you do so many trial and errors every day, it takes time, because the error takes time. What you see in here is it just the whole process of building a startup takes a lot of time, but they don't have the time. Why? Because the investors, the VC investors don't have the time their model talks about. They need to return the money to their investors. I mean, what we call a VC firm is just a management company. The money is not their money. They take money from insurance companies or things like that.

So in their charter, they need to return the money with all the profits, the great profits, within seven to 10 years. Okay? That's the money they have. Now how do you return money? You got money, you need to return money. To return money, you need to take the company you invested in and convert it back to money. So you get money put in the company, get shares. Now you need to get the shares back to money. That's how it works. So there are only two ways of taking money out of the company in big ways. One is being acquired. Somebody buys the entire company and pay you money. Or you go and do an ipo, initial public offering, preferably in the New York Stock Exchange or nasdaq, and then you liquidate the shares.

Essentially, people can take every share and sell it and convert it to money on an instantaneous basis. So that's an exit. So VCs need you to move from an idea from two founders to being acquired or in IPO within seven to 10 years. That's the time allotted to you. So let's think about going public. So to go public in the US Stock Exchange, you need to be there only about six or seven thousand companies in the stock exchange. That's it. So they request usually that you have about $100 million in revenues that you grow by about 20% year over year.

And preferably, it used to be in the 2020, 21, we don't need you to be profitable. Now everybody says you have to be profitable. So they got back to yes, profitability is good. So that's what you need to do.

So very big exits usually when companies go public in the usa. So let's look at it, let's do a reality check on Israeli companies, venture backed Israeli companies. So if we look at that then since the year 2000, I'm sorry, there are so many zeros in here. So one of them is a date, the year 2000. About 1000 companies were founded every year. That's kind of the numbers we hear from IVC. That gives you the 24 years from 2000 to 2024, about 20,000 companies. I put it down a little bit. So in that period, less than 100 companies went public in the US and of them only about 38 companies had a value on the day of the IPO of more than 100 million. That's all. And if you look at it even deeper than 24 of those 38.

So 2/3 of these 38 companies did it during the heyday years of 2020 to 2022. That's it. So in the 20 years before that, only 12 companies or 14 companies went public. It's that hard. It's not 1 in 10, it's 1 in 500. And these numbers are public so we can verify them. 1 in 500, 499 didn't go public. What about MAS? Companies get acquired for many reasons. So number one is they are bought for their business success. So if a company is profitable, is growing, it's generating cash, it's a good assets you can sell. So companies are acquired times for being a good business. That's the reason that is the easiest to sell a company or they have a unique technology or product that the buyers need. For example, it happened a lot in cybersecurity.

The big guys Check Point and Palo Alto and those, the new people prepare a product, there's a new wave of something and they just basically buy the technology or the company. But that is much more limited because when you develop such a technology or just a product, you have a handful of buyers, that's it. So they either buy you or they don't buy you. But your selection is very minimal. There is a handful, five, maybe 10 companies that might be acquirers of you or they are in trouble and just sell for almost nothing. So a lot of Those companies spend 10, $15 million developing a product, ran out of money about to get close, somebody comes in and scoops them up. And the top of it is buyers that actually buy the company just for the team in it. That's it.

So they, instead of going and hiring a team, they buy the company for a few million dollars and they take all the team. And there are many other reasons. Most acquisitions are done without disclosing the deal value or the structure. So there is a press release talking very nicely about the strategic fit of this acquisition. Yeah, don't laugh. Yeah. But never mentioning any money involved in it. That probably means it's not a billion dollar, because when things are that big, you hear about it. So most of those are under the radar. And we are now doing research with ivc. IVC is the Israeli Venture Capital. It's a firm that tracks all the venture capital investments. And we hope to get their data and see what really happened with all the masks.

Okay, so why do companies fail?

Well, basically because they run out of money. To achieve a meaningful exit in such a short time, VC firms encourage companies to grow as fast as possible. They only have seven to 10 years, starting with two people. The two of you started a company, you get some money and they tell you, we need to get an exit. So start working. Okay. And to support the growth, what the VCs do, they invest large amounts of money, really crazy amounts of money. And I put the word encourage, which is polite, but it's usually less polite. They tell people, go and hire a team and start building it and move, move, move. And another guy is starting to laugh over there. Right. So everybody who was in that situation knows the process.

So what they want you to do is first of all hire an engineering team to develop the product. They want a full organization that can support growth, that can scale up. So they want a CFO, they want a VP marketing. They want a CMO, a CPO, sick, whatever. All the Cs in the world. CxO. Yeah. And you can put from A to Z anything you want. Product management, marketing. Basically you will build it. There's. And. But why do they run out of money? You can either raise money all the time or you can start selling and making money. Right. But the problem is that the time is too short. So they usually don't scale up sales fast enough.

So what they get to the point is, let's say they did everything right and they're selling, I don't know, three, four million dollars a year, but their expenses are $10 million a year. They run out of money. So they're on the path to success and they run out of money. I asked some people, why do companies fail? And they said, there's only one answer. They run out of money. I said, but why do they run out of money? So that's what I explained. Okay, I want all of you to understand one thing in here. And you said it. Companies move along two parallel dependent dimensions, time and money. These are not X's like that. They are parallel. Time and money are interchangeable all the time. Money can buy you time. Not when you are old, then it doesn't work.

But if you are a company, money can buy you time and definitely the other way around as well. So they need time to develop the product, to figure out marketing sales and to grow revenues until it covers the cost. And they need money to pay for all of that. So they hire the team, they need money to pay for all of this. And what do they do then? They raise another round of financing. So that's why you see companies where precede today, then seed, then round A, then round B, then round C. Right? Why do they need so many rounds? Because they ran out of money or they ran out of money and they shut down or they get acquired. So but they basically a lot of these things happen because they have no choice.

Not because they want to, they just have no choice. They are spending money, they need to get money or else they shut down. So let's see where the money goes to. So you know me, I like to do some spreadsheets just to show you how quickly things became. So assume that the company raised $5 million. And my question is, how long will it live? So assume each employee earns 30,000 shekels per month. Okay? Just an average. And then we need to add the alut Mahavid, you know, so you add all the benefits so you have another 30% on top of it. You are now at 39,000 shekels. Salaries are about 75% of the expenses. Because you need an office, you need tea, you need all kinds of things. So it's 50,000 shekels.

And I convert it to dollars and at the end annual cost per employee is about $175,000 a year. And all of you, not, because that's, we all know it's around less than $200,000 a year. So that's about it. So money is time. Time is money. Here you can see it. If you have only have 30 people, that's all. You have one year to live. That's it. One year to live. Okay, Money runs really fast by the people. If you only have five people, you can live for six years. If you have 50 people, you just live seven months. I put the colors right. So if you are in the green, that's okay. If you are down at the below, then it's didn't put red because it just was too screaming. But yeah, time is money and it runs really fast.

So the question is, why not raise a lot of money, but spend just a trickle? That's what I would do, right? I would raise $10 million and then spend $5 a day. That's about it. Don't even eat. But why don't they do it? Why don't people do it? And the answer is interesting. The more money a company raises, the higher the investors pressure to invest it faster. Why? Because they need an ROI and need an ROI on a bigger amount. So if an investor put $20 million, he now needs to return 50 or 60. So the pressure to move fast is even much higher. So the more money they raise, the higher the pressure, not the other way around. So it doesn't help to raise a lot of money in this case. And raising initial rounds depend on three factors.

Number one is when you go to raise round B, let's say the new investors who are not, they don't have any investment in this. So they are free to make a decision. They ask, why should we invest? What have you done with the previous money? What milestone have you achieved? Do you already have customers? Do you already have revenues? Do you already have a working product? So you can raise money only in very certain points during the life of a company. And God forbid, if you ran out of money between these two points, you're in bad shape. It depends on market conditions. 2008, you couldn't raise anything. 2020 was difficult. Okay. Or don't remember what the years. In one of the presentations I showed you the good years and the bad years. But there are years that just people don't invest.

The market is crazy. And another thing is that the market moves from one fad to the other every three or four years. So today they will invest in cryptocurrency, tomorrow they will invest in cyber, and the following day they will invest in AI. The fad of the day or the week of the year. Okay? So if you happen to be from the five years ago, you're not interesting to anybody anymore. That's it. Your time is done. We close the door on that. So in most cases, additional rounds become harder and harder. That's what happens because of it. Every time you raise money, there is more money on the table that you need to prove what you have done with it. And the risks grow higher and they heavily dilute the founders.

So if you are the founder, even if the company at the end succeeds, your share of the company goes to become 2%, 5%, something like that. So why fail if you can succeed? So now that I proved to you or showed to you why it's 9 out of 10 fail, then the question, what do we do? How can we change this? So the first thing is to change the goal of the company from an exit finite game to an infinite game. What is finite game? Finite game is a game that have clear rules. Beginning and end, winners and losers. Soccer, basketball, hockey, you know, they start, they end. Winners, losers, two groups, clear rules. That's a finite game. This is play finite game. I put money in you today, and in seven to 10 years you have an exit.

We take the company, we sell it, we fire you, and we take the money back. These are the rules of the game. What is an infinite game? An infinite game is life. Why nobody wants to see the end? It's very simple. We all strongly believe, each and every one of you, that we will live forever. And we live our lives with this feeling

that we are going to live forever. So when I build a company, my plan is that the company will live forever, will live after me, smart up, will live after me. Okay? That's the whole idea. So I think long term. I think about what are the most important things I want to accomplish or that the company should accomplish. That's an infinite game.

You need to change the goal of the company from an exit to being profitable as early as possible. So instead of thinking I have to have an exit in seven years, you say, how do I become profitable? Because when I become profitable, I don't need to raise more money. I'm independent, I'm a grown up, I can buy my lunch. I don't need anybody to help me. Okay? So profitability means that every month your sales. Think about what? I'm just saying it's really simple. The sales generate more money than your expenses. So I'm talking about cash flow, profitability. What you really want is at the end of the month, you sold $250,000, came to the bank and you spent $150,000 on salaries and rent and everything. That's what we mean by profitability. Basically, cash flow positive months after months.

So the profitability guarantees that your company can survive because you don't depend on any outside investor or whatever. You depend on your customers, obviously, so don't fuck up. But you are independent. The interesting thing is, and I can talk about it from experience, that when your company is growing and is profitable, it has a much more lucrative exit. And why is that? Two reasons. Three reasons. Number one is you can have the exit whenever you want because you're not dependent on anybody. So you obviously will choose a good time to do it. And obviously you have much more leisure to figure out who you want to buy the company. Second, the company has two different value statements. Number one is the cash it generates. If the company generates a million dollars a month, $12 million a year, it's worth at least 20 times net.

So it's $250 million before you even do anything. That's the price, right? You don't need to think about it. Second, there is the value of the technology or the product to the buyer, which is usually bigger than the money because you complement something and they can justify buying you. I'll give you an example that I saw it with my own eyes. So let's say that the people who buy you are a public company and they get 50 times on the profit. So that means every dollar profit that they buy from you is worth $50 for them. So clearly they will be happy to pay you $30 on every dollar of profit because then they will make another 20. Day one. Day one, they will make it. So you will see that having a profitable company is tremendously valuable.

Changing your goal will greatly increase your chance of success. Question is, what is a successful company? We at SmartUp define success as three things. It's profitable, it's fast growing, and with a modest investment. I specifically didn't put a number. What is modest? It depends. But it's in the low millions of dollars. A million, half a million, maybe 3 million, maybe 5 million. But definitely not 20 or 30 or 50 million. Okay, so, and you need to be profitable and fast growing. How do you get there? So if you decide to change your company objective from an exit to a profitability, then it will have an impact on everything the company does. Because just saying change the objective means nothing. The question is, okay, how do I get to profitability?

And that will have a dramatic and deep change on everything that you're going to do. And I'm going to give you a list in here. First of all, as you then have noticed, focus on sales. Day one, keep expenses to absolute minimum. Basically, as I wrote before, the equation is sales Minus expenses equals profit. Make the expenses small, the sales high and you are profitable. Second grade math. So keep expenses low and focus on sales. From day one, just start thinking, how can I generate income? The sequence of activities will change. What do you do first? You know, at the end of the day we have to decide what do we do when? So it changes completely. Where your focus is at the beginning. Instead of building the product, you want to do branding. And I'll explain what it is.

Product development will come next. The markets you want to go after. Okay, so everybody in the vc. Oh, we need a big market. We'll talk about it. No, take a beach head. Beach head means a small market. You can penetrate easily. Jobs to be done. That's what you sell. Actually, you sell a solution. You kind of sell a product, but not really. You sell a solution. That's the job to be done. And I'll give more information later. Contrary to what you hear, it's better not to be first. The products you develop, do you want to be disruptive or incremental? Again, I'm giving you a list. I will go later one by one and explain it more. The team you build, who and when do you hire, the business model, pricing, packaging, the complete product, the pace your company grows. Growth engines.

Concept of growth engine I will explain. For low cost, CAC means customer acquisition cost. So as you can see, there is a long list of things that every company has to think about and discuss that are going to be impacted by the decision to become profitable. So where can you learn all of that? So that's where SmartUp Academy comes

in. This is a program to teach the profession of building successful companies. It's a profession, you can learn it, you can understand it. The same way that I describe why companies fail, I can explain what you need to do in order to be successful. And the three pillars, as I said, is profitable. Fast growing. How do you build a fast growing company with a modest investment? There's a course, we call it the foundation course. It's a 14 week intensive course.

You can see all the materials on our website and there is a registration form on our website. And all of you are encouraged to fill out the form and we will talk to you. So let's look a little bit deeper into what I said before. Again, this is just every one of those things usually is a lecture or two lectures in the course. So branding first. What do we do today? Virtually all companies start with building their product, right? First thing they do is they raise money, they start building the product Assuming they have nothing to sell before they have at least a prototype. When I'm going to talk to, I have to have something in my hand in order to do that. You hire a team. What else can you do? You hire a team of engineers, programmers, whatever it is.

The problem with hiring is that you create a fixed and growing expense. Each employee wants a salary, and he wants the salary on the first of the month for whatever reason. And you can't tell them, you know, we ran out of money this month, let's forget it, we'll talk about next week. It doesn't work this way. You can't hire and fire and hire and fire the same person. It is the most fixed expense you will ever have. But that's what companies do. They hire a development team, which is usually a very expensive team, and they live in this. Those of you who saw the movie Field of Dreams, the main thing then is if you build it, they will come somehow, miraculously.

If you build this baseball field, all the great heroes of the past will come out of their grave and play on your baseball team. So in reality, it's not an American movie. They don't come. And you can't sell if nobody ever heard about you. That's the reality. You develop the product, it's phenomenal. You can demo it to yourself and your friends, but if nobody else ever saw it, nobody is going to buy it. Developing a product is much easier than selling it. I know it rubs engineers the wrong way, but it's much easier to develop a product than to sell the product. Why? Because developing a product, everything is under your control. You sit in front of the computer and you decide what you do, and that's about it.

When you try to sell, you sit in front of the customer and you tell them what they need to do, and they just don't do it. They just don't do it. They tell you, oh, it was great meeting you. Thank you so much. Don't call us, we'll call you. Right. And you can't debug them. And it takes time to educate the market, regardless of how much you try to teach. Remember, we're now talking about markets. We're not talking about a single buyer. So it takes a long time to reach your potential customers and educate them. And the only way to do it so that they are ready by the time you have the product is if you start early. It's just a matter of time. It's really that simple.

If you start talking to people about what you do today, two years from now or three years from now, when you have a product to sell, hopefully they already start thinking about you. It takes a long time. So this is a very classical marketing funnel or sales funnel. And the first here is awareness. Awareness is branding. That's what awareness is. I know about you and usually how I explain to people the difference between branding and marketing is the following. Who knows about the Kardashians? I see that all of you know about them, right? What do you know about them? But you know, right? They exist. Okay, I asked the question, you know, what is the CEO of Ford Motors, who is the CEO of Mercedes Benz, who is the CEO of Tesla, Right. Why? Because he's a genius at branding. That's all.

Because he's branding. He's the brand. He's the brand. Okay, but you see the difference. Same type of people, okay, but some of them were able to penetrate our cluttered head. And we know them, we heard about them and others don't. And their success rates reflect that. That's the point I'm trying to make. Their success rate in penetrating our brain, our mind reflects their business success. So if you run a company, start with thinking about that all the time. How do I get to the point where my potential customers know about me? They don't need to know a lot. They just don't. So instead of building the product, remember we're starting the early days. You got $200,000 from angel investor. What are you going to do with the $200,000?

So instead of hiring somebody to build a mock up or whatever, my suggestion is start to think about branding activities. Start to think about branding growth engine. The biggest innovation you're going to make in your life is how to become a Kardashian. And you're missing many of you, missing some parts. Okay, so, but that's the biggest innovation you can think of because that will make you successful. I don't say it's easy, but I say this is really important. And most companies don't even think about it. Strong branding will create tangible value in various ways. So much larger top of the funnel that I showed you before, the more people know about you, the

easier it is to take them in. Reduce the cost of sales, because once people know about you, they will respond to you.

You don't need to spend a lot of time to getting them to pick up the phone or read your email or fill out a form. You gain deeper understanding of the market because you start talking to these people way before you build your product. And if there's a word I hate in companies. It's the word pivot. So they spend millions of dollars, they develop a product, then they come to the market and nobody wants it. Duh. Now you figure out nobody wants it. Now why don't you try to sell the product before that? It doesn't have to work. But if everybody says, oh yeah, interesting, then you know, you don't have a market, you don't have to be there. And you identify potential market beachheads.

Many times when you start doing branding, you realize there is something else that these prospects or customers want that you might be able to deliver. Just because you talk to the market and people tell you what they need, right? And obviously if you raise more money, it will make it easier. It's much easier to come with a brand. People say, oh yeah, I heard about you, by the way. That's why, you know, Venrock invested in Zoom Info, you know, many years ago. Mainly because he said, if I hear about a company three times, I have to invest in it. And I heard about you three times. The markets you target, they always tell you the VCs, you need a huge market, a very big market. Well, there isn't a big market. Never.

There are a lot of little islands that together represent the big market. The example I like to give is I have a great idea how to become rich. I know that the Chinese like rice. So all I need to do is sell 1 kilo of rice to every Chinese once a year. That's all. It's really simple. And usually people start laughing. Why? They start laughing because they immediately realize the problem is not the rice. How are you going to get to a billion Chinese and sell them rice? Right? That's the problem. So a big market is a big problem. It's not a good thing, it's a bad thing because it's very difficult to go after a big market. It's much easier to go after a small, well defined market.

When the Allies wanted to conquer Europe back from the Germans, they didn't spread around 2,000 miles. Long beach off the Atlantic. They went one place right on the D day. That's it. 20 kilometers. That's all what they wanted to conquer. 20 kilometers. That's a bitchhead. You want to find the easiest point to penetrate the market and start from there. So selling to a small market segment is enough to make your company profitable. Remember what were talking about? You want to be profitable, you're in the early stages of your company. Let's say Your expenses are $300,000 a month. Okay, $4 million a year. You don't need a huge market to generate $5 million in sales. You don't. It's a small market. You pick a beachhead and you penetrate it and you at least bring your company to be profitable.

That's what you need to do at the beginning. And then it's much easier, as the Allies proved in World War II, it's much easier than to move from town town, from city to city, from segment to segment. And by the way, how you segment the market can be in many different ways. So when I say segment the market, you decide how you segment it. Because basically when you do the branding, you see who is responding to you, and you don't need to think about how you address a huge market. But as I said, you can start small and become profitable. Better not to be the first again. Everybody says, oh, you have to be the first so that you conquer the market. Two mistakes. You don't need to conquer the market and you don't need to be first. So it's overrated.

I just read a book now about innovation, and every second page it says, innovation is incremental and evolves over time. I can bring you here examples from here to wazoo that virtually all of the innovations we see today took anywhere from 10 years to 100 years to evolve. And there are many people involved in it. Let other companies educate the market. It's very expensive to educate the market. CRM. I started my business life in 1983 or something like that, and there was already a CRM. It was called act with an exclamation mark. I think it's still alive. Nobody knew about it. Salesforce came many more years later. Only today, it's kind of obvious. To start a company, you need a CRM. But it took 50 years. That's what it took. Google, Facebook, WhatsApp, Amazon, intel, you name them. They were never the first.

In the course that we give, I show you many examples of how many companies were there before on every one of these things. So never the first to the market. And they learn from what other people did, what was right, what was wrong, and then they succeeded. So you don't need to be the first, but you should strive to be the best. That's the point. So let other people open the market for you. Spend a lot of money educating the market, pour money into a lot of things, and then see how you can do better than them. And what is the full product? The full product is the devil is Always in the details. So if you think about successful companies, you see they are always very focused on the details. Take Amazon, for example.

You want to return something, you just return it, no questions asked. Why? And they refund you right away. Why? Because if you think about if I have to track the return, figure out that they really returned it, verify that indeed that's the product they bought. I spent so much money on it is much easier for me to just say, tell me you returned it and I'll give you the money. And that's about it. Everybody's so excited, right? But they're smart. So the devil is always in the details. Companies succeed or fail on the details. Jobs to be done My favorite writer, Clayton Christensen, he died of cancer about five years ago. He wrote the Innovator's Dilemma. And that's the second book, Innovator Solution. And there he is talking about jobs to be done.

There is this book in Hebrew for those of you who prefer. So that's why I put the picture in here. There's another book called Competing Against Luck. Understanding customers does not drive innovation success. So if you understand your customers, that's not what makes you successful. Understanding customer jobs does and the jobs to be done approach. And I'll explain in a moment what it is. So what is jobs to be done methodology? It's based on the idea that people and companies buy products and services to accomplish specific jobs in their lives or business. Doesn't matter. So that means they don't really want the product. They want the end result of the product. I don't need the shoe polish. I need my shoes polished. That's what I need.

I can buy shoe polish or I can go to a shoemaker or whatever, or buy new shoes, but I don't need a shoe polish. I need my shoes polished. Sounds trivial, but it's not. Because once you define it this way, then suddenly the product becomes less relevant than fulfilling the customer need. And that's critical. In most cases, they don't need it. Why is that so critical? It's very critical because to develop a product that will be good enough so that when customers use it, they get what they want is not easy. However, to give them what they want many times is much easier. Much easier. Why? Because you can insert yourself into the paradigm and make sure that they get what they want with the product, without the product is not less important. So understanding what they want to accomplish is really critical.

Jobs to be done shifts the perspective to the job itself and to jobs to be done immediately. Implies the market segment should be different, not the traditional way. Okay. Market segment is girls age 16 to 21, college graduate. That's kind of, we think about market segmentation, but that's not what they say in here. What it says in here you want to divide the market by the jobs they want to accomplish. My favorite example is watches. How much would you pay for a watch? All watches today show the time accurately. All of them, trust me, I checked. Some of them cost $20, some of them cost $20,000 because they do a different job. The $20 watch show you the time. The $20,000 watch shows everybody else. You can spend $20,000 on a watch. That's their job. Okay?

So the job to be done is very different. And the two markets coexist wonderfully because they are not the same market. They're just not even though it's a watch market. Okay, in what context? Exactly the same thing. Right? So many times you need to understand the context by which people need that emotional and social. I'll give you an example about emotional and social. Many companies I talk to have a solution that will save the buying company a lot of money. They can prove it. It will save a lot of money. How? Well, you don't need all of these department of people because you don't need them. My product does it all.

And then they go to the head of the department and they try to sell the product to the head of the department and they don't understand why he says no, no, your product doesn't work well from an emotional and social perspective. The head of the department doesn't want to fire himself and all his people. So he is not going to listen to you. It's that simple. You go to even higher echelons in the company and many times you will get the same answer again. Why? Because people are attached to people. Because they don't want to make changes. Because you know his brother in law is in that department, he's not going to fire him. Blah, blah, blah. When you sell a product, there are many aspects about the jobs to be done that you need to take into account.

So disruptive technology and disruptive products again, are overrated. VCs all the time want you to do what is disruptive about it. So many successful companies have no disruptive technology but a disruptive business model. If you start looking around you will realize that more often than not the disruption is not in the technology. Give you an example. Gatt. There's nothing disruptive about GATT except they replaced the cab dispatcher. So the business model was not to do something sophisticated. Technologically it was. It's much easier to dispatch a cab using this application than to call a dispatcher. Pango is just a parking meter. That's all what it is more convenient. They negotiate with everybody. It's easier to use no disruptive technology. Amazon. What Amazon brought and I brought them an example before. They have a maniacal focus on operations. That's where they are.

Great maniacal focus on operation. There's no technology sophisticated technology there. Vault a scalable and efficient delivery service. What is scalable? They don't have employees. Every Volt partner is an independent contractor. They don't owe them anything. They can work or not work, it doesn't matter. It doesn't cost money. So it's a scalable business model. That's what it is. No technology enablers. So in order to do all of that, you have to look around and find what are the things that make all of these changes available and available to you. So the jobs to be done when you start thinking about it can be done more easily by leveraging enablers innovative ways. So there are a lot of tools today that you don't have to invent them, but if you use them smartly, you can do a lot of jobs that otherwise you can't do.

For example, right now you get my lecture in Hebrew. As we speak, he reads my lecture in Hebrew. Why? Because we have in here a speech to text app and a translator on the text so he can read the lecture in Hebrew. We haven't invented anything. We just put two computers, that's it. So you can do a job to be on using enablers. So let's just quickly look about the technology enablers today. Smartphones, they have a camera. Think about all the applications. You use the camera. Like I have a huge application at home. When we run out of something, I take a picture of it and send it to my wife. Works magically. Okay. GPS Vault and Get and Waze and whatever mapping apps you can do. Internet phone calls. Nowadays when you travel abroad, you still have your phone.

You just use it on the Internet. Video meeting. Right. When I moved to Israel in 2004, I needed Zoom so I can continue to run the company where speech to text translation, ChatGPT and other generative AI tools. All of these are enablers. They are here, they're available, they are cheap, they are wonderful 3D printers didn't yet find a killer app, but one day it will happen. I don't know what it's going to be. Drones, Same thing. They multiply like crazy and they're useful. The sharing economy. Twenty years ago, if you told my wife that she's going to step into a cab, that the driver is, and nobody said, no, I'm not going to go into Uber. But the fact of the matter is people do travel with Uber, they do go and sleep at somebody else house. It became the norm.

So cultural norms change and they become enablers and you should take advantage of it. And my pet idea is that nowadays your Todad Zehut number or your passport number, all of that stuff that really belongs to the country, is going to be replaced by a universal, international, unique ID. Why? Because of 2fa. Why 2fa? Two factor authentication. Nowadays you will get a phone number when you are born and that phone number stays with you because you will not be able to go to any application without getting an SMS or something on your phone. So that means we are now married to this number much more than we're married to our two. That's the whole number or passport number, which by the way changes every 10 years. Okay, what can you do with it? I have no idea. I'm just telling you.

This is another one of those cultural norms which is changing very rapidly. Each and every person in the entire world have a unique number that is accessible. The team you build. Team size. So those of you who ever built a team know that it's very hard to find, attract and recruit great people. It's just difficult. Why? Because the top 5% of people, there's only 1 in 20, so you have to skip 19 and get to the 20s. It's very difficult to find the good people you want. And small teams are far more productive and efficient than large teams. More people does not mean faster results. You can see that time and again, the bigger the team, the fewer results you get. So it's kind of an inverse proportion. You spend more money and you get less results.

If you spend no money, at least you get the same result. Zero money, zero results. You add one person, you spend a little bit, you get a lot of results and then it starts to invert. So the key is obviously to find just the right amount of people. Another thing is, if you hire very smart people, they are multidisciplinary, they can do things that are not under your job description very easily. Actually, they like it. They like to learn new things, they like to play with new things. Okay? So you should leverage the people you have rather than go and hire additional people. And unfortunately, every person adds overhead.

So you have one great engineer, you bring another great engineer, you have two engineers, they're working together, they sit one next to the other, they exchange two words every 10 minutes and things just fly. So you're so excited, you bring a third person. Second, three people need a team lead, okay? Now you need to have. Well, who am I going to make the team lead? The new guy, maybe, I don't know, he has two years more experience. But then they will get insulted. So you spend over it like two weeks. Then you nominate one of them to be the team lead. The other two are angry. Now they need to have meetings, because a team needs meetings. Right now the team lead needs to have meetings with the other team lead. So before you know it, the two people were great.

The three people do half the amount of work that the two people did. So don't add the third person. Hire as few people as possible. It will reduce your expenses. And if you think that I invented it so I have scientific proof. It's

called Price Law, and I'll read it to you. 50% of the work is done by the square root of the total number of people who participate in the work. Work. Amazing, right? All of you immediately understood it. Here's the story about it. This guy Price is a professor and he studies the history of science or something like that. As you know now, for every scientific article, they have all the references. And so there are now databases that measure how many times your article was mentioned and by whom and whatever. So there's plenty of data.

So one day he decided to do an experiment. He picked a subject and he looked at all the articles written on that subject, and there were about 1,000 articles. When he looked who wrote the articles, there were about 100 writers writing about 1,000 articles. Then he noticed something, that the same names appear again and again. And he calculated. So he found out that out of the hundred writers, the square root of it is 10. 10 people wrote 50% of the articles. The other 90 people wrote the other 50% of the articles. So if you need to pay a salary, hire the 10 people, get half the work, and pay 10% of the cost. After he published his article, people repeated similar ideas in companies and saw that it works like magic. It's very much like the famous 8020 rules.

Parkinson Law basically says work will expand to fill the time allotted for its completion. Or in pure Hebrew, if all you have to do is fill out one form and you have the whole day, it will take you the Whole day to fill out the stupid form. That's about it. And it is across continents, across gender, across age, everybody is doing the same. The famous problem, how do you promote yourself? In every organization, people promote themselves the following way. If you try to go up, you have a boss. You can kill the boss. Usually it's illegal. You can try to move him or move aside. Difficult. But it's much easier to convince your boss that you're working so hard. You need two more people. And now you're a team lead. Solve the problem. Okay? So that's how organizations get inflated pricing and packaging.

People believe that customers are price sensitive. It is correct that they are price sensitive on products that are well known and very common. You want to buy a bread, you know essentially how much a bread cost. Okay? You want to buy the nuclear reactor. You have no clue how much nuclear reactor cost, okay? So you have nothing to compare it to. So most companies start with a product that people don't know what it is, so they don't have a clue of the price. Therefore, you have tremendous latitude to fix whatever price you want. And they are not price sensitive. What they are sensitive to is the jobs to be done and to risk and to ease of use. So if you sell them that this is going to make their life easier. They want to work, they want to get the results they wanted.

So they don't really care whether it cost $10,000 or $50,000. Remember, it's not their money in companies, right? It's other people money. It's the company's money, not my money. When it's my money, I look more. But when it's the company's money, I need to give results. So the jobs to be done become important. You want to charge as much as possible. Why? Because you want to be profitable. If you charge $10,000 or you charge $50,000. Charging $50,000 is like having five customers, not rocket science. Okay? How do you fix your price? How you decide about your price? In most cases, by trial and error. You try to see what is the price that people will buy. And you will not lose too many customers. You will lose some, but that's not important because you will lose some anyway.

So you want to find by trial and error, where is the point where you can charge a certain amount, still not lose a lot of business, but make as much money as possible. And the interesting thing is different price point dictate different selling strategies. Very similar to the point about the watches. If you wanted to buy a Rolex watch you can only buy it from an agent and you have to be on the waiting list for a year. Why? So that you feel that you are really, you know, important if you finally get it. So people who try to sell things on the web, no touch, just go in and put your credit card. It has to be less than $1,000. People don't go in and buy on the Internet things that they are not familiar with.

For $10,000 for a salesperson to be productive, they need a deal size of about $5,000. So you have a gap of $4,000. That's the reality. You have a gap and you need to figure out how to solve it. Build the pricing structure so that different customers can pay different prices. You don't want to have a single price, but you don't want customers to say, how come he paid this and I paid that. So you need in the packaging to figure out what are you charging for seats, data, minutes, units, whatever it is you want. You have to decide how you do that so that you can basically change the price. Looking at ule, you can pay more. Okay, you will pay more. And. And here's why. Okay, I justify it. You've spelled the price monthly.

It's $99 a month, but in parentheses, that's the annual price of $1,200. And you have to pay it up front. If you want to pay monthly, it's $200 a month. Why is that? It has huge impact on your cash flow. Renewals A lot of products today, SaaS, products, it's annual contract. You want them to renew. How do you make customers renew? Took me about 15 years to figure it out. When I figured it out, I started laughing because it was so

stupid. If you have a CRM and you're using it, what's the chance you're going to, at the end of the year go to a different CRM? Why? Because all your data is in there. Just the thought about pulling all your data out, reformatting it and putting somewhere else is zero.

So you have to make sure that in your product, somehow you collect history so that you ensure that the people will not want to get rid of the people get attached to their history. So if there is some history there, they will renew because that's their main database. Somehow we did it at Zoom, where the data, you can change it anytime you want, but the moment people starting adding comments and information on their records, that's it. They had to renew.

Startup Academy. I go back to it. It's a program to teach the profession of building successful companies. What I talked about in the last 20 minutes was just a very small taste of what we teach. Again, our definition of a successful company is profitable, fast growing and with a modest investment. And it's 14 weeks of intensive course.
And something I didn't say before, for the good ones, you know, the people who excel at the course. We have a different program called the residency program. Because you finished medical school six years, you're on the dean's list and you are not a doctor. You have to spend four or five years in a hospital to really learn what you do. Same goes in here. I can teach you whatever I want. It will open your head, you will think about it. It's great. But day to day, it's very different. In this residency program, companies join us. We become resources, literally, co founders. We work with them on a weekly basis, daily basis, and we help them shape the company. Thank you so much.