Challenges in Bootstrapping a Start-Up Venture: Keenga Research Turning the Tables on Venture Capitalists

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Abstract

This case study chronicles the timeline of a new venture – Keenga Research. Keenga Research has a novel proposition that it is seeking to introduce to the market. The business concept is to ask entrepreneurs to review the venture capital (VC) firm that funded them. Reviews of VC firms would then be developed and marketed to those interested (funds and perhaps enterprises seeking funding). What makes this case unique is that Keenga Research was a lean start-up. Bootstrapping is a situation in which the entrepreneur chooses to fund the venture with his/her own personal resources. It involves self-funding (family and friends), tight monitoring of expenses, and maintaining control of ownership and management (Winborg & Landstrom 2001; Perry, Chandler, Yao, & Wolff, 2011; Winborg, 2015). The lean start-up approach favors experimentation over elaborate planning, customer feedback over intuition and iterative design over traditional big upfront research and development.

This case study requires the reader to consider a number of the basic challenges facing all entrepreneurs and new ventures.

Is the concept marketable?

Can the concept be developed and brought to market in a timely manner?

Will the product generate revenue? How? When?

What are the commitments of the entrepreneurs?

Have they considered the major challenges to be faced?

Since this venture involved gathering and developing research information and then creating an online platform, Keenga Research faced significant concept-to-market challenges.

The research method used in this case study is first person participant observation and interviews. One of the authors was a team member so the contextual details come from direct observation and first-hand knowledge. This method of research is often used in anthropology, sociology, and social psychology where an investigator studies

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the group by sharing in its activities. The other author provided an objective and conceptual perspective for analyzing the venture. This combination of perspectives provides a more balanced picture.
***Keywords**: entrepreneur, business concept, opportunity recognition, venture capital, bootstrapping, lean start-ups, concept-to-market timing, resource commitments and constraints.*

INTRODUCTION

Entrepreneurs involved in start-up companies face a bewildering number of challenges that require critical decisions. But the decisions that are appropriate for the challenges of one entrepreneurial venture may be completely inappropriate for another (Bhide, 1996). The traditional way of launching a new venture has been evolving. Blank (2013) has summarized it as this: "According to the decades-old formula, you write a business plan, pitch it to investors, assemble a team, introduce a product, and start selling as hard as you can…*(but)* somewhere in this sequence of events, you'll probably suffer a fatal setback."

Shikhar Ghosh of the Harvard Business School suggests that 75 percent of all US start-ups funded by venture capital fail. When *The Wall Street Journal* asked him about the start-ups that were not funded by venture capital, he indicated that they "fail more often than VC backed companies in the first four years of existence, typically because they don't have the capital to keep going if the business model doesn't work." He noted that, "VC backed companies tend to fail after their fourth year—after investors stop injecting more capital" (Gage, 2012).

While many mature corporations and VC backed start-ups have difficulty accepting slimmer profit margins, most non-VC funded start-ups pursue opportunities without regard to resources they currently control and are less risk averse (Timmons, Spinelli & Ensign, 2010). These entrepreneurs must master the ability to identify new opportunities, become proactive innovators, and tolerate a high degree of personal risk (Lumpkin & Dess, 1996). Other characteristics associated with this kind of entrepreneur include seeking autonomy, innovativeness, a proactive approach, and competitive aggressiveness (Covin & Miles, 1999). Some authors have cited the presence of innovation as the defining trait of any entrepreneurial activity (Covin & Miles, 1999). Others have also viewed entrepreneurial efforts as including all non-routine activities by those who direct economic activities, irrespective of whether it is a private individual or mature corporation (Baumol, 1993). The departure from accepted routines and practices and a predilection for innovation is perhaps the defining characteristic of entrepreneurship and how entrepreneurs meet challenges and make decisions.

The primary entrepreneurial challenge a start-up must face is the issue of financing. ***Bootstrapping*** a new venture is viewed as an alternative method to traditional VC funding. It may in fact be entrepreneurship in its purest form. Most start-ups are financed through a "highly creative" process that involves the use of personal savings, credit-card debt, loans from friends and family, and some sources of private equity (Freear, Sohl, & Wetzel, 1995). The first academic reference to bootstrapping in start-up financing is attributed to Bhide (1992). His study of bootstrapping was an empirical investigation of its importance and the informal ways the entrepreneurs tapped into resources. He divided bootstrapping into two categories: financing for product development and financing for business development.

Bhide's interviews with entrepreneurs attest to the value of bootstrapping—launching ventures with modest funds. We have numerous examples of the success that comes from such a process. Ross Perot started EDS with $1,000 and turned it into a multi-billion-dollar enterprise. As a freshman at the University of Texas, Michael Dell started selling computer parts by mail order and turned it into a major computer hardware firm. As a Harvard dropout, Bill Gates launched Microsoft with his high school friend Paul Allen (Bhide, 1991). Mark Zuckerberg, also a Harvard dropout, bootstrapped Facebook a fair distance.

Bootstrapping a start-up is like having zero inventories in a just-in-time system: it reveals hidden problems and forces the entrepreneur to solve them. As Tom Davis of Modular Instruments, a medical and research equipment manufacturer, stated: "If we had had money we would have made more mistakes. This way I wrote all the checks. I knew where the money was going" (Bhide, 1992, p. 112). In the field of new venture creation, bootstrapping a start-up remains the rule rather than the exception (Timmons, Spinelli, & Ensign 2010).

Closely linked to bootstrapping a start-up is an approach called the ***lean start-up***. It favors experimentation over elaborate planning, customer feedback over intuition and iterative design over traditional R&D up-front development (Blank, 2013). Entrepreneurial start-up ventures are not smaller versions of larger ventures. They do not unfold in accordance with master plans built on the premise that it is possible to figure out most of the unknowns in advance—before money is raised and the business concept is executed. No one, other than venture capitalists and the late Soviet Union officials, required five-year plans that forecast complete unknowns. The start-ups that ultimately succeed go from failure to failure. This happens at the same time that the entrepreneurs are adapting, iterating on, and improving their initial ideas based on continuous feedback from actual or potential customers (Blank, 2013).

Blank (2013) claims that early MBA programs taught students to apply large-company approaches to start-ups, for example, accounting methods for tracking revenue and cash flow, organizational theories about managing, etc. Whereas today's business schools take a more realistic approach to studying start-ups and recognize that new ventures face completely different issues and need their own management tools. Once business schools embraced the distinction between management execution and searching for a business model, they replaced the business plan as the template in entrepreneurial education in favor of discovery-driven planning (McGrath & MacMillan, 1995). Business plan competitions that were a celebrated part of the MBA experience for over a decade are being jettisoned in lieu of business model competitions. The Harvard Business School made this switch in 2012. Many other schools of business including Stanford, Berkeley, and Columbia are embracing the lean start-up curriculum (Blank, 2013).

RESEARCH METHODS

The investigative approach used to develop this teaching case is first person participant observation. One of the authors was a member of the Keenga Research team so data collection and contextual details in the case come from direct observation and first-hand knowledge. This method of field research is often used in anthropology, sociology, and social psychology where an investigator studies the group by sharing in its activities. As such, it is primarily a data collection method in a qualitative research paradigm (Kawulich, 2005). Using Gold's (1958) four theoretical criteria for classifying sociological field observations, this is a complete participant type of method—it is not an observer, observer participant, or participant observer method. The other author provides an objective and conceptual perspective for examining and analyzing the information.

Instructional material in entrepreneurship can be drawn from longitudinal individual case studies that provide rich but potentially idiosyncratic data or research-based time-specific survey statistics that generally reveal few specifics on how and why a firm succeeds or fails. In this case study the authors provide depth and breadth to the instructional material. The case participant author, a seasoned serial entrepreneur and angel investor, was imbedded for over four years in the start-up under scrutiny and provides the contextual reasons for decisions involved in the entrepreneurship process (Stevenson & Jarillo, 1990). The other author, an experienced researcher and teacher, provides a conceptual perspective based on entrepreneurship theory and practice. This gives a framework to the entrepreneurial challenges that the venture start-up faced as time progressed. Combined, the authors joint

efforts offer a unique experiential learning opportunity for MBA students and aspiring entrepreneurs who need to develop their own understanding and analytical abilities. Students can, therefore, put themselves into the situation and learn how they might cope in building a fledgling enterprise.

ANALYSIS

The case study of Keenga Research follows a chronological timeline that takes place over a period of four years. The narrative is lineal and divided into eight periods of time. Each of these focuses on specific entrepreneurial challenges that Keenga Research faced. At the end of each timeframe several questions are raised. These are helpful for students to analyze and evaluate the situation at each point in time. The sequenced periods of time and guiding questions help students understand the bootstrapping and lean start-up approaches. The learning objectives behind the case narrative and guiding questions are based on Bloom's revised taxonomy of the cognitive domain (Anderson & Krathwohl, 2001). Notes for the instructors are presented in the discussion section at the end of the case.

TEACHING CASE

Turning the Tables on Venture Capitalists: Keenga Research

Period #1 in the Case Timeline

A Unique Concept is Born. It began as many start-ups do. An idea tossed around by a graduate student with one of his professors over coffee. Jeron, an MBA student, married with a family, and a manger in a VC firm, had the idea of reversing the one-way relationship of venture capitalist with entrepreneurs. Jeron's concept was to let those entrepreneurs being funded rate the VC firms that provided them with funding. Why not ask the entrepreneurs to review investors? The opportunity to assess VC firms by the entrepreneurs they funded had never been done. This would generate an enormous amount of data and could provide a statistically based way to evaluate VC firms. Data reports could be marketed to pension and wealth management companies for making decisions regarding which VCs in whom they would invest. Their product would be especially useful for start-ups who did not have the resources to search through all the VC firms to find one to fund them.

What made the concept more compelling was that there were only two major players assisting pension and wealth management companies with their investment decisions. Both of these—Cambridge Associates and Thompson Financial Consultants—were primarily targeted at the high-end of the market. For example, a report might cost US$50,000, require multiple rounds of due diligence, and need significant overhead. Although powerful in evaluating a single investment, these reports did not identify and evaluate all VC opportunities. This unique business concept could fill this significant gap in the market.

Guiding Questions. Reflect on the generation of a new business concept and Jeron's moment of realization that he had an innovative idea. How important is uniqueness in starting a business? Does the perception that there is a need for a unique concept create a barrier? Can other less-innovative ideas be just as successful? Why or why not? Is Jeron's idea marketable?

Period #2 in the Case Timeline

Starting a Business. Jeron's first step to get the idea off the ground was to draw in Jeff, a trusted former colleague. They named their start-up Keenga Research. The business model seemed simple enough. The first step was to identify entrepreneurs funded by VCs. For example, they could identify entrepreneurs that had been funded by Benchmark Capital and get the email

addresses of those individuals. They spent many months creating a manual process to get the email addresses of individual entrepreneurs who had received investment money that could be linked to a specific VC fund. It was time consuming, averaging five minutes to find each email address.

To solve the problem of getting these addresses they located a contact center based in the Philippines to do the manual work. After negotiating for over a month, they arrived at a price point of US$0.40 per email address. Their first major expense was a check for US$2,000 to the center in the Philippines. At this point Jeron and Jeff were bootstrapping, funding the venture out of their own pockets. Neither would give up their current employment.

Guiding Questions. What can be inferred about the commitment of the partners to this business concept? What can be learned from their decision to bootstrap Keenga Research? What other approaches could have been considered at this point in time?

Period #3 in the Case Timeline

Challenges of Developing the Product. The team's next step was building their database. They developed the methodology necessary to gather and statistically analyze the data. The questionnaire that would be sent to VC funded entrepreneurs was drafted and pilot tested using individuals who they personally knew. This test provided valuable feedback especially on ways to refine their survey instrument.

At this point the team was confident in the methodology they had developed and their contact list was growing. While their initial outlay of US$2,000 had yielded 5,000 email addresses, the team received only 100 completed and usable surveys for a response rate of 2 percent. As Jeron pointed out, "That kind of response does not provide statistically significant data. Given the fact that there are over 2,000 VCs in the US marketplace, we would need to obtain feedback from an extremely large number of entrepreneurs. We just don't have the financing to handle it."

After spending nearly two years on Keenga Research—albeit on an *ad hoc* basis—Jeron and Jeff admitted that the entire process was moving slowly. They were in a catch-22 on their initial business model. Data needed to be based on statistically significant results to market and sell reports. To generate those results they would need 5,000 or more completed surveys. The cost could run as high as US$100,000. Jeff sputtered, "We just can't get that kind of money without selling reports—and the next steps aren't clear."

Guiding Questions. Reflect on the challenges of developing, testing, and bringing a business concept to market. What personal qualities and traits are needed by an entrepreneur who chooses to use a bootstrapping and lean

start-up approach if the business concept requires significant R&D? What effort and resources are required?

Period #4 in the Case Timeline

Challenges of Limited Financial and Human Resources. For several months the team wrestled with creating a workable plan. Could they come up with a solution to the issues they faced? The decision was made to approach Anthony who owned the contact center based in the Philippines. They outlined their problem. His response was positive. He saw promise in what they were doing and extended them credit so they could continue. Anthony's help allowed them to get up to 30,000 email addresses immediately, giving them a chance to achieve statistically significant data. But at that point they still faced the issue of limited resources, both human and financial. Adhering to a lean start-up approach, a final decision was made to keep costs down by cutting back and focusing on a subset of VCs initially, ones that could be used in their reports.

In their discussions with Anthony, he indicated that the team's efforts were moving too slowly and they needed more manpower. In the end, he asked to get more involved in the business. This looked like the answer to their problems. It was an opportunity for Keenga Research to move ahead faster and have another person on board. At the time, Anthony had been CEO of the Philippine call center for five years. He had also been employed at multiple Internet start-ups. On the positive side, he had significant business experience. On the negative side, Anthony would be working on an *ad hoc* basis but still CEO of the contact center in the Philippines.

After a period of negotiations, Jeron and Jeff decided to accept Anthony's offer. Since he was running his own company Anthony could work on their venture during working hours, something that the others could not do because they were committed to regular nine-to-five jobs. As Jeff remarked, "Anthony could reach out to the market and respond to customers during a normal business day as he was needed."

The relationship flourished over the next six months. Both sides were gaining trust in each other. Anthony was beginning to take more of a leadership role. The addition of Anthony to the team came just at the right time. Jeron had recently assumed an increasing role at the VC firm where he was employed so he was no longer able to devote as much time to the business. Jeff also faced constraints. He had made a change in workplace which greatly reduced his ability to devote time and energy to Keenga Research. Although he had spent several years on the start-up, he stepped back from his management role. As an initial investor and part of the original team, he retained equity and a role as an active investor. The final decision

was an easy one at that point. Anthony was promoted to president of Keenga Research.

By the time these changes in leadership took place, the team had recognized that they needed to make the data relevant. In the original survey format, entrepreneurs were asked to judge the VCs on a 1 to 5 scale. As Anthony pointed out, "there was no way to tell what a rating of 3 meant in the overall market." The solution was to use the first round of data to create a new benchmark. This benchmark placed the VCs into quartiles, providing a better way to assess the firm specific data provided by the entrepreneurs.

At this point Keenga Research had: completed 450 surveys with a focus on specific VCs; made several revisions of the survey which improved the data collected; worked on and completed a summary of results from these surveys; and launched a preliminary website to provide an overview of the company. As Jeron remarked, "Based on our initial goals, things have been going well. But the next steps will require a transition from a data gathering company to one that produces revenue. Something tangible needs to be created that can be marketed and sold."

Guiding Questions. How would you evaluate their progress to date in developing their business concept and their commitment to seeing it brought to market? Applying what you know about VCs and the nature of Keenga's business concept, would you advise them to seek VC funding? Why or why not?

Period #5 in the Case Timeline

Challenges of Becoming a Viable Business. Relying on their original business model, Anthony and Jeron began to work on developing the template for a report. Their initial report contained more than just the survey data (see a sample report generated for Canann Partners in the Appendix). It included data about the VC firm, outlining investment strategies as well as strengths and weaknesses. As Jeron asserted, "We have developed a unique rating system that highlights the potential volatility of a VC's investment strategy combined with an understanding of their overall performance."

Finally it was time. Anthony and Jeron had confidence- "that report is ready for its debut!" They began making calls to pension and wealth management funds to test the market for sales. Until that time, the pair had only made a few preliminary inquiries to assess perceptions of the product. Would it be valuable? These responses had provided them with positive feedback. But when asked to buy these reports, not a single potential customer stepped forward to place an order.

The team took this setback to critically review their business model—assess where they were and where they should go in the future. To get useful

information they returned to potential customers for their input. Anthony summarized:

1) Although they had a unique concept, Keenga Research did not have a reputation as a research company. It needed to gain credibility in the market. For example, if everyone was using the reports they would become the industry standard. But until others were reading them, most of the pension and wealth management companies would not perceive them to be a valuable resource.
2) The team had not developed an effective marketing/sales strategy. Jeron had the contacts within the industry but lacked the time to pursue them. Anthony had more time but lacked both important contacts and an understanding of the industry.
3) The process of generating their first report had been successful but once again it had been an extremely manual one. They had utilized the data generated in-house as part of the report. For the remaining reports they had to find sources that could provide the other data needed to complete the report. Each report required approximately 30 hours to prepare.
4) The only really unique part of the report was still the numerical data generated from entrepreneurs with first-hand experience with the VCs. Some of the other parts were helpful but most of the market interest was in the core data from entrepreneurs.
5) Using the web for data collection was going well but getting it into quartiles was still done manually. The final draft required an analyst to streamline and present the data.

Guiding Questions. What has transpired to this point in time? Step back and evaluate where things are. What has been their focus? Was there a viable market for their concept? As a bootstrapping start-up, the team does not have "deep pockets" to overcome R&D challenges. What should be done?

Period #6 in the Case Timeline

Challenges of Reinvention. The team had a face-to-face meeting and attacked their original business model. They felt that what they had created would not survive with their resources. Jeron and Anthony outlined their next steps.

- Work on establishing credibility.
- Find ways to enhance their product.
- Investigate ways to market and sell their reports.
- Improve the total report process so it requires less manual input.
- Find a way to automate their data collection process.
- Focus on their own unique research data.

These ideas raised some critical questions and issues. Would pension and wealth management companies ever be willing to pay for the data? Should they give the data away for free? Can the business model generate

needed revenue? How can they get to scale? How can they create a product reputation that can improve their credibility in the market? How can they eliminate the manual processes that have bogged them down?

As Anthony explained "We came to the conclusion that we needed to change the original business model and move the entire database online." A web portal was needed so entrepreneurs could enter their responses easily online. Answers would go directly into a database. This would automate the processes involved in analyzing the data. A significant change was to move some of their core data online. It would be offered at no cost. They hoped that this would help them sell more complete reports. Another significant decision was to have two products: a short report that would be available online at no cost and a long report only available to premium members. Once they had established the volume of business they needed, they would shift both reports into premium status.

During one of Anthony's meetings with Jeron, they spent a significant amount of time brainstorming ideas that they could pursue while they waited for critical mass. They sketched out what would be called the "Entrepreneur's Toolkit." The idea was to provide new entrepreneurs with a folder of useful documents. One of these could be a sample term sheet for fundraising. All of these documents would be provided at no cost to increase traffic on their website and improve acceptance of their business and product.

Another idea—perhaps a groundbreaking one—was to provide tools online to help entrepreneurs value their companies. For example, daily stock market data combined with financial analytics could provide individuals with a current benchmark of value. Because the approach would use current data, the benchmarks would be fresh and hopefully once again sticky. They hoped that a combination of these new ideas would create a community of entrepreneurs and companies using Keenga Research as an ongoing resource. If successful, these could lead to additional data collection for their core business and provide new sources of revenue. But the financial cost would be high. It would cost at least US$15,000 to build and code a site that could handle these additions to their website.

Guiding Questions. In their assessment, changes must focus on the best ideas and pivot away from those that do not work (Blank, 2013). How would you organize and prioritize the questions raised by the Keenga team into a brief business model canvas? Has the energy and creativity level of the team changed?

Period #7 in the Case Timeline

Progress Too Slow and Too Late. After working on Keenga Research for years, Jeron felt they were finally closing in on a sustainable business model. Things

were looking up and moving forward. Then the other shoe dropped. Jeron received an email from a colleague with whom he had shared the concept of Keenga Research. His friend knew the business model and sent over the worst possible news. Despite their attempt at secrecy a competitor had launched—TheFunded.com.

Although impossible to prove, Anthony and Jeron felt that TheFunded had received one of their surveys, evaluated their business model, and come to the same strategic conclusion. The concept was an incredibly good idea whose time had come. TheFunded had reached out to every major news forum to project itself as the originator of the business idea. TheFunded was covered by the media as the company that was turning the tables on the VCs. Their website was completely automated and streamlined although it did not have the depth of questions as those at Keenga Research. After four years of work, Keenga Research was now a "me too" rather than a brilliant cutting-edge business.

The team had tried to keep their ideas under wraps from the very beginning. They justified this because they had two major concerns: the VC capital firms might react negatively to the business concept and their research work, even going so far as to block the entrepreneurs funded from participating in the research; and someone else might take their idea and run with it. In the end, Keenga Research paid the price. They had missed the opportunity to be the first mover in this new market.

Guiding Questions. One of the concepts in a lean start-up is "minimum viable product." The emphasis is on nimbleness and speed to rapidly assemble minimum viable products and immediately elicit customer feedback. They can use input from customers to revise their assumptions. At this point, the cycle can start over again—testing redesigned products and making small adjustments (iterations) or more substantive ones (pivots) to ideas that are not working. Customer feedback matters more than secrecy in most industries. Constant feedback yields better results than cadenced unveilings (Blank, 2013). What are the pros and cons to how Keenga Research and TheFunded approached the process of bringing a business concept to market?

Period #8 in the Case Timeline

Greater Investment or Exit Strategies? Although they had been scooped, the Keenga Research team used this as an opportunity to learn from TheFunded. How did the site monetize its research? Would companies pay for the services? Were they able to overcome financial issues? The general review of TheFunded by the potential market appeared to be: it was interesting and entertaining but not educational. Serious players in the industry were discounting the value and quality of the data.

In the end the team believed that their business concept still had merit. They looked at the long-term outlook for the business. Based on their experience and the quality of their database, they were still executing better than TheFunded. Once reputations were established, could they generate revenue? But they also knew that getting there would require a significant investment of time and money.

Jeron and Anthony spent time reviewing and planning. They needed to make some critical decisions on the course of action. Was the business concept still valid? Could they make it as the second player in a market that was unproven for revenue and that would require substantial investment? Could they maintain Keenga Research as a hobby business? Would it be better to rally around their new products? Could these generate revenue? If so, what resources, including financial and human, would be needed to launch the products? Both of them agreed that Keenga Research really needed people power to build clout. To do more would require one or both of them to make a greater time commitment and go full time, but were they willing? Or, should they try to sell? Could they get anything for their small enterprise? Who would purchase it? TheFunded, Cambridge Associates, or Thompson Financial Consultants?

Guiding Questions. Reflect on the questions raised by the Keenga Research team. Are there other questions, issues, or challenges that should have been raised? What should be their next steps and how should they be prioritized?

DISCUSSION OF APPROACH FOR TEACHING THE CASE

Potential Audience and Use. This case is appropriate for an MBA elective on New Venture Creation or an MBA Strategic Management course dealing with emerging strategies or strategic change. It is can also be used in a class or workshop to help students understand the difficulty of launching a complicated and unproven business concept using a bootstrapping approach. A good way for students to look at the issues raised in the case might be for them to work together as partners or teams—either before or in class—as though Keenga Research was their own business.

Class Plan. This case gives students an opportunity to think about starting their own business. Since the case chronicles the start-up over a four year time period, many of the major entrepreneurial challenges can be examined. The founders had to face financial and human resource shortages on a continuing basis but it seems that they were able to adapt and cope. The instructor could expand on these issues in a lecture and with handouts. Using

a teaching case, students will have a greater understanding of what a non-VC funded venture faces—perhaps even how to capitalize on their own start-up ideas.

Learning Objectives. The evaluation and assessment of the start-up in this case should help students to:

Identify the complexity of being an entrepreneur.

Analyze and synthesize the issues of business concept/opportunity recognition.

Assess the importance and effectiveness of timing in a start-up.

Identify the consequences of human and capital resource commitments.

Evaluate complexities in the product developed process.

Recommend an action plan for Keenga Research at this point.

Synthesize the implications raised in this case for their own professional development as an entrepreneur.

END-OF-CASE DISCUSSION QUESTIONS

(Can be used in class or as a written assignment).

Was the business concept still valid? Could they survive as a second player in a market that is unproven for revenue but requires substantial investment?

The validity of this business concept is still an open question. TheFunded began to charge for access to its data and Keenga Research moved in that direction. TheFunded was charging $20/month per member in a relatively limited-size market. Total revenue would only be in the $20k range even with a strong market penetration.

The answer to the question "Could they survive?" is maybe. It is not financially viable as a standalone business model but it could work well as a build-and-leverage-other-markets model (Balboni & Bortoluzzi, 2015). It could be a launching platform for other revenue generating ideas. The students need to think about what Keenga Research could do with a captive market of entrepreneurs. There may be two options to consider. Option 1 would be to open its own VC and leverage its market position to raise funds and find ideal investments when the firm reaches critical size. Option 2 would be to focus primarily on services for entrepreneurs or mutual funds and/or move into recruiting and services. See Ensign (2008) for help in dilemma resolution.

Can they maintain this enterprise as a hobby business/lean start-up? Would it be better for one of the partners to work at Keenga Research full time?
The venture team faced this quandary many times. The team primarily focused on whether Anthony should move to being employed full time. But since the firm was only raising about $40k this would not meet Anthony's salary requirements. If they paid Anthony there were two problems: they would run out of funds in three or four months and they would not have the funds needed for web development. Anthony would bring new partnerships and ideas for development but there would still not be enough people to back him up. In the end the team decided to put their financial resources back into the website.

The question of whether any firm with a complex model can remain a hobby business is a critical one to answer. A recent study found there was no statistically significant difference in the outcome of certain critical activities between founders who start a business as a hobby and those who do not (Kim, Longest & Lippmann, 2015). The founders at Keenga Research believed that while their pace was slow they had managed to make progress but it had been a difficult struggle. It had taken an enormous amount of their own time and required sacrifices from their families.

Would it be better to focus on new products? Could they generate revenue? If they did focus on new products, what financial and human resources would they need to launch the products?
These questions are related to the first question. The issues of products and revenue are related and critical. This discussion should focus on the two models for generating revenue in starting a business. The first model is a true VC backed entity in which the founders raise significant funds from outside. This would provide more capital for the development of the product, building a team, and marketing the new products. The timeline for success would be significantly shorter. But the share of ownership could be reduced to 10-20 percent. The second model is the bootstrapping one that the founders pursued. The founders may retain up to 80 percent of the equity in the firm and the path to success is much slower. It can have many problems but it can give them the satisfaction and control they may want. Either model can be successful but both involve significant risk. Ultimately the direction a start-up takes will be based on what the team thinks will work for them. In this case study the choice of bootstrapping resulted in slow execution, coming in second, and a significant number of issues that had to be faced. On the topic of timing (optimal timing, strategic action, and real options) see Sollars and Tuluca (2012).

Over time, Keenga Research pursued a new business model that complimented the existing one. This model was to launch a tool that allows private companies to value themselves and track their value using daily benchmarks from public companies. They built a mergers and acquisitions database to provide this service. Their new products matched their original one by specifically targeting entrepreneurs. The hope was that offering new things useful to the entrepreneur would improve interest in their overall portfolio. At the end, the team was reviewing the option of going live on the Internet.

Should they try to sell? Could they get anything for their small enterprise? Who would purchase it? Would TheFunded, Cambridge Associates, or Thompson Financial Consultants buy it?

The answer could be to sell if the founders decided they were beat. At this point the value was not fully created. For the company to sell at this point it would be at a greatly undervalued price. They might get US$50,000 for the entire idea, which would not justify the time, effort, and funds they had personally invested. If they decide to continue it could become profitable and wildly successful. Something that may not have come out previously in class discussions is the issue of two large firms in their market (Thompson Financial Consultants or Cambridge Associates). If one of these firms purchased TheFunded, Keenga Research would probably be forced to build out its model or make a strategic acquisition of its own.

What really happened?

Since teaching cases are open ended there were no correct answers. But most students will want to know what the founders of Keenga Research did beyond what is presented in the case. Although the founders did not want to be a “me too” company in their market space, there were enough differences in the two businesses for them to continue in the market. See Najda-Janoszka (2012) for a balanced assessment of the viability and success of an imitation strategy over absolute novelty. TheFunded had a survey online that asked entrepreneurs only a few questions in assessing the VC firm that had funded them. The written survey sent to entrepreneurs by Keenga Research asked for their input on 45 questions. In the end, Keenga Research dropped their manual process of completing surveys and put it and the data collected online. They had enough ideas to push hard and generate their own model. It moved company valuations to the web, which was the first time this had been done. The company was in discussions with major tech press publications to push this technology.

The venture team continued working part time—raising capital but investing it all back into the website. They also decided to re-brand themselves because Keenga Research did not resonate with the market they were targeting. They changed their corporate name to Venture Returns (VentureReturns.com). Anthony Woods, CEO and President of Venture Returns, made the following statement in a news release.

"When the company was founded more than three years ago the focus was entirely on in-depth venture capital and private equity reviews. As we've grown we've found that our user base actually had other needs, which stimulated our development of a broader set of services. Now, again based on user feedback, we are excited about the launch of a new service entitled valuation tool, which we will formally unveil on October 1st. We were the first to present VC reviews, and now we are the first to provide a fully automated valuation tool for entrepreneurs."

CONCLUSION

One of the objectives in undertaking this study was to introduce JEMI's audience to the value of using a case study when teaching entrepreneurship classes in the business curriculum. If we have stimulated an interest in pursuing how they can adapt this teaching method to their classroom we will have achieved that goal. But this study also had two other objectives. First, it was designed to provide students with an understanding of financially bootstrapping a start-up venture, one that uses a lean approach to bring a new idea or business concept to market. Second, it was designed to expose students to the experiential learning that can occur in studying a business case. The aim was to engage readers to think about what a real start-up looks like and gain a better understanding of the challenges and issues involved in bootstrapping a start-up.

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Anthony A. Woods is a serial entrepreneur and angel investor. He holds positions in several firms including President and CEO of Incoho Inc., a leading provider of commercial collections, B2B demand generation and research work. Incoho is a leading Chicago-based company focusing on accounts receivable management and outsourced collections services. The client roster includes international banks, telecommunications and energy companies, and other global organizations. In addition to Keenga Research, Mr. Woods was one of the key start-up team members of Keen, Inc., a successful Silicon Valley Internet firm. He previously worked at Mercer Management Consulting. He graduated from Queens University, Kingston, Ontario, Canada with a Bachelor of Commerce degree.

Appendix

Keenga would again like to thank you for your time and for providing us with insight into the areas that are valued by entrepreneurs. We researched the contact information of over 20,000 individuals who have been involved with companies that have raised capital. Of this group, we had over 400 responses providing us a solid benchmark of opinions. We have provided this report to those who completed the survey to highlight some of the most relevant information.

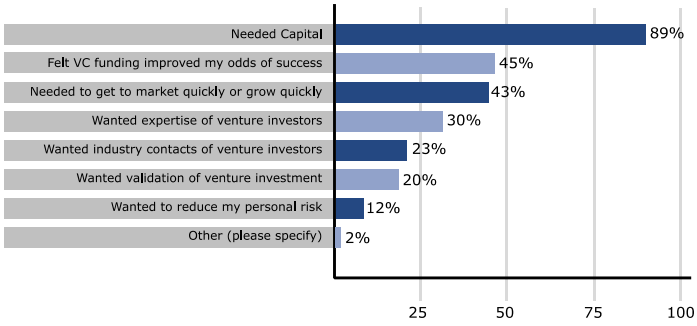
In our research, we found that the majority of entrepreneurs are between the ages of 41 and 50 years old and have started 1.4 companies (on average) and are generally male (92%).

Entrepreneurs value, above all, the ethic and trustfulness of the VC that they are working with. This is the most prominent area that is used in determining VCs. Our research also showed that the majority of entrepreneurs feel good about their VCs on this front. After this area, entrepreneurs are primarily concerned with finding a long term partner and of course the economic terms of investment. This last item, economic terms, is where entrepreneurs feel that VCs have performed the weakest.

Likely to reinvest with same partner: 74%
The fund managed expectations appropriately during the process: 82%
Entrepreneurs feel they had a positive experience: 83%

Overall, entrepreneurs found that VCs are least helpful in two key areas for any young business. They found that they were not getting assistance for finding top talent and providing sales leads.

Why people raised money? Note multiple answers are possible.



www.keenga.com
1-800-822-2466

Keenga RESEARCH
PRIVATE EQUITY VENTURE CAPITAL RESEARCH

Canaan Partners

A-2

Firm Profile

Early through expansion-stage venture capital focusing on IT and life sciences in the US and Israel.

Rating

Return Rating	A—30 % + IRR
Volatility Rating	2—Normal
Entrepreneur Rating	High—2nd Quartile 4.44 / 5.00
Portfolio Benefits	Solid US mixed-stage venture with a solid risk-return profile

Summary

Fundraising
- Last fund heavily oversubscribed
- Not in market for 2-4 years
- Near complete shift to institutional investors in Fund VII

Performance
- Recent funds have generated very strong IRRs
- High percentage of investments have exited

Team
- Strong team with varied backgrounds
- At least two strong, young partners
- Some evidence older generation is less involved

Market
- US valuations creeping up
- US exits remain difficult
- Israel remains healthy with room for more investment

Investment Model
- Strong deal flow
- Rates high in ethics and relationships with entrepreneurs
- Rates low in industry expertise and treatment of entrepreneurs when startups fail

Red Flags
- Founder left firm in 2002
- Some partners seem less involved
- Not terribly good at building business for portfolio despite claims
- Canaan may lack deep industry expertise

Recommendation

Given Canaan's strong track record of returns, its solid base of institutional investors who all agree on its potential, its ability to source deals and generate exits, and its generally healthy rapport with entrepreneurs, we believe Canaan is a "buy." We believe that Canaan will continue to generate very strong IRRs so we rate Canaan an A for Returns. We do not have any evidence that indicates that Canaan's volatility will be lower than average or greater than average, so we gave it a Volatility Rating of 2—normal. Entrepreneurs think highly of Canaan and place it high in the 2nd quartile. In conclusion, we are convinced that Canaan has a good rapport with entrepreneurs, will typically generate solid returns, and has a viable and sustainable investment model with a strong next generation of younger partners.


Keenga
RESEARCH
PRIVATE EQUITY VENTURE
CAPITAL RESEARCH
Canaan Partners
A-2
Overview
Founded in 1987, Canaan Partners is an established, relatively large, US-based, early through expansion-stage venture capital firm with offices in Connecticut, the Bay Area, Israel and India (opened earlier this month). Canaan has established a great fundraising track record, most recently investing out of a $450M Fund VII and transitioning almost entirely to an institutional LP base. According to our analysis, Canaan has made 247 investments since inception and has had a significant number of exits. Over 51% of its investments have exited compared to our benchmark of 37%. While Keenga does not have access to Canaan's full historical returns data, we believe that its funds have performed quite strongly. According to Keenga's proprietary survey sent to over 21,000 entrepreneurs, entrepreneurs think very highly of Canaan. Comments are consistently positive, for example: "Canaan is wonderful. Straight shooters. Support the entrepreneur." When asked about the fund's weaknesses, entrepreneurs can only point to "limited time available to pay attention to the inner workings of our company during times of transition (financing, commercialization, etc.)." One entrepreneur also noted that occasionally Canaan gave "inconsistent advice" and gave advice "when they [were] not experts." Our research and survey identify that Canaan ranks at the high end of the 2nd quartile in the strength of their next generation of fund managers and our research confirms that young partners Brent Ahrens and Maha Ibrahim are widely viewed as capable successors. Overall entrepreneurs rated the fund 4.44/5.00 which places it at the top end of the 2nd quartile. Our investment rating is for Canaan is A-2 because we believe that it will continue to consistently generate stong returns.
Offices
Westport, CT
Menlo Park, CA
Hertzliya Pituach, Isreal
Delhi, India
(208) 855-0400
www.canaanventures.com
Fundraising
Canaan has been very successful at fundraising over the past 18 years, raising over $2.82B. It began to fundraise for its most recent $450M fund in January 2005 and by May 2005 it was already $100M oversubscribed. New LPs in Fund VII have said that Canaan terms are pretty much standard. LPs have also mentioned that the firm's investment consistency and practice of promoting from within helped pique their interest. The firm believes that Canaan Equity III will be fully invested by the third quarter of 2006 and they will then begin investing out of Canaan Partners VII.
Performance
Canaan is best known for successful investments in DoubleClick (DCLK), Commerce One (CMRC), Copper Mountain Networks (CMTN), Immunicon (IMMC), ONI Systems (ONIS), and Combinatorx (CRXX). However, the fund has also performed well recently, in part due to due the success of a couple of new partners. One new partner, Brent Ahrens joined Canaan in May 1999 and was promoted to partner in May 2005. Since joining he has led investments in Revivant (sold to Zoll Medical), Peninsula Pharmaceuticals (sold to J&J for $245M) and Dexcom which concluded a $56M IPO in April of 2005. Although we do not have access to Canaan's complete performance record, we believe that Canaan's latest funds have generated strong IRRs.

Abstract (in Polish)

Niniejsze studium przypadku stanowi zapis historii tworzenia nowego przedsięwzięcia – Keenga Research. Keenga Research oferuje nową usługę,, którą zamierza wprowadzić na rynek. Koncepcja biznesu polega na poproszeniu przedsiębiorców, aby poddali ocenie kapitał ryzyka (VC), firmę, która ich stworzyła. Ocena VC byłaby następnie opracowana i sprzedawana dla zainteresowanych (funduszy i być może przedsiębiorstw poszukujących finansowania). To, co sprawia, że ten przypadek jest wyjątkowy, to to, że Keenga Research jest tzw. lean (odchudzonym) start-upem. Bootstrapping jest sytuacją, w której przedsiębiorca zdecyduje się finansować przedsięwzięcie z jego / jej własnych zasobów osobowych. Polega ono na samofinansowaniu (rodziny i przyjaciół), ścisłej kontroli kosztów i utrzymaniu kontroli własności i zarządzania (Winborg & Landstrom 2001; Perry, Chandler, Yao, i Wolff, 2011; Winborg, 2015). Podejście lean start-up sprzyja bardziej eksperymentowaniu niż skomplikowanemu planowaniu, opinii klientów niż intuicji, iteracyjnemu projektowaniu niż tradycyjnej, z góry ustalonej działalności badawczo-rozwojowej. To studium przypadku wymaga od czytelnika rozważenia kilku podstawowych wyzwań, z którymi borykają się wszyscy przedsiębiorcy i nowe przedsięwzięcia:

Czy koncepcja odpowiada potrzebom rynku? Czy koncepcja może zostać opracowana i wprowadzona na rynek w odpowiednim czasie? Czy produkt będzie generował przychody? W jaki sposób? Kiedy? Jaki jest poziom zaangażowania przedsiębiorców? Czy rozważyli główne wyzwania przed nimi stojące?

Ponieważ przedsięwzięcie wymaga zaangażowania, zbierania i opracowywania informacji badawczych, a następnie tworzenia platformy internetowej, Keenga Research stanęła w obliczu znaczących wyzwań dopasowania oferty do rynku.

Metodą badania zastosowaną w tym studium przypadku jest obserwacja uczestnicząca oraz wywiady. Jeden z autorów był członkiem zespołu, więc dane kontekstowe pochodzą z obserwacji bezpośredniej i wiedzy z pierwszej ręki. Ta metoda badań jest często stosowana w antropologii, socjologii i psychologii społecznej, gdzie badacz analizuje grupę, biorąc udział w jej aktywnościach. Drugi autor przedstawił obiektywną i koncepcyjną perspektywę do analizy przedsięwzięcia. Ta kombinacja perspektyw zapewnia bardziej zrównoważony obraz.

***Słowa kluczowe**: przedsiębiorca, pomysł na biznes, rozpoznawanie okazji rynkowych, venture capital, bootstrapping, lean start-up, przyspieszone wprowadzanie produktu na rynek, zaangażowanie zasobów i ograniczenia zasobowe.*