Entrepreneur First
What is EF?
Our mission

How does it work?
Our programme

Joining EF
Who we look for and how to apply

What does it take succeed?
EF is the world’s first talent investor
We invest in People
We invest in People
Pre team
We invest in People
Pre team
Pre idea
Why?
We believe entrepreneurship is a vehicle for impact.

Possibly the most important and powerful one of our time.
We also believe the world is missing out on some of its best founders.
So, what is an EF founder?
That’s why we created EF.
Every investor has a thesis.
Our thesis is that the greatest value can be created by backing extraordinary individuals before they have a company.
It works.

1500+ EF ALUMNI SINCE 2011

250+ COMPANIES CREATED

£1.6b COMBINED PORTFOLIO VALUE

ENTREPRENEUR FIRST
JOIN EF.COM

FOUND THE FUTURE.
How does it work?
Our programme
We run a 6 month programme

It is split into two parts: Form and Launch.
On Form, your mission is to:

1) Find a co-founder
2) Validate an idea, based on your ‘edge’
Why co-found?

- Complementary skill sets
- Novel idea generation
- Defensibility
- Support
Edge is what gives you an unfair advantage compared to others.
Tech edge
Domain edge
‘Catalyst’
On Launch, your mission is to:

1) Turn your insight into a business
2) Prepare to raise seed-investment
Joining EF
Who we look for and how to apply
Smart
Committed
Edge
Insight
We run 2x cohorts every year in 6 cities (soon to be 7) around the world.

Bangalore, Hong Kong and Singapore
Start in Jan and July

Berlin, London and Paris
Start in April and October

Toronto
Starts in May
What does it take succeed?
Mindset.
Mindsets beat skills.
They are learnable.
You can focus on crucial, high-value ones.
1. Long-termism
2. Growth mindset
3. Competitiveness
4. Personal exceptionalism
5. “Honey badger”-ness
Market sizing
MARKET SIZING: WHAT TO EXPECT FROM THIS MODULE?

01. BASIC LEVEL - Why is Market Sizing important?
   ○ Team vs Product vs Market
   ○ An overview of Venture Economics

02. ADVANCED LEVEL - The art of Market Sizing
   ○ The market sizing funnel
   ○ Market sizing techniques
   ○ How to increase your market share?
Why is Market Sizing important?
Why is Market Sizing important?

A. Team vs Product vs Market
B. An overview of Venture Economics
01. WHY IS MARKET SIZING IMPORTANT?
   A. Team vs Product vs Market

TEAM vs PRODUCT vs MARKET
“We need to believe your team is exceptionally well suited to build a very large business very fast.”
Investors

“We need to believe your team is exceptionally well suited to build a very large business very fast.”
“We need to believe your team is exceptionally well suited to build a very large business very fast.”

7-10 years
“We need to believe your team is exceptionally well suited to build a very large business very fast.”
“We need to believe your team is exceptionally well suited to build a very large business very fast.”

£1 billion+ valuation
WHY IS MARKET SIZING IMPORTANT?

A. Team vs Product vs Market

Team  Product  Market
```
<table>
<thead>
<tr>
<th>Team</th>
<th>Product</th>
<th>Market</th>
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</thead>
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“In a **terrible market**, you can have the best product in the world and an absolutely killer team, and it doesn't matter -- you're going to fail.”

Marc Andreessen
```
“In a great market - a market with lots of real potential customers - the market pulls product out of the startup.”

Marc Andreessen
Determining your market allows you to
Determining your market allows you to assess viability.
Determining your market allows you to

Assess **viability**

Gain **insight** into all market players (competition)
Determining your market allows you to

Assess **viability**

Gain **insight** into all market players (competition)

Indicate potential **revenue & valuation**
Assess **viability**

Is my market big enough?
Gain **insight** into all market players (competition)

What are my competitors doing and how are they going about it?
01. WHY IS MARKET SIZING IMPORTANT?
   A. Team vs Product vs Market

Indicate potential **revenue & valuation**

- Market Size
- Market Share
- Revenue Opportunity
- Profit Opportunity
- Valuation
AN OVERVIEW OF VENTURE ECONOMICS
The most likely financial outcome (expected value) from investing in a startup is...
Probability of Success $\times$ Market Value of startup with profit = Expected Value
Investing in startups is a **risky** business...
So you need to create **excitement** about the upside potential in the crazy event you do succeed.
A good VC fund should return at least 3x the total fund.
As a rule of thumb, **a single investment** needs the potential to make the total value of the fund.
So what does that investment look like?
£100m fund → £300m+

Expected return:

**£300m+**

**WHY IS MARKET SIZING IMPORTANT?**

B. An overview of Venture Economics
£100m fund

Invest £1m at £10m valuation

Expected return: £300m+

10% ownership
£100m fund

Invest £1m at £10m valuation

Dilution due to more investors

Expected return: £300m+

10% ownership

8% ownership by exit
01. WHY IS MARKET SIZING IMPORTANT?
B. An overview of Venture Economics

£100m fund  →  Expected return: £300m+

Invest £1m at £10m valuation  →  10% ownership

Dilution due to more investors  →  8% ownership by exit

Expected exit valuation: £3.75bn+
01. WHY IS MARKET SIZING IMPORTANT?
B. An overview of Venture Economics

Expected exit valuation: £3.75bn+

Median Valuation/Revenue multiple = 5x
Expected exit valuation: £3.75bn+

Median Valuation/Revenue multiple = 5x

Expected exit Revenue: £750mn+
Expected exit valuation: £3.75bn+

Median Valuation/Revenue multiple = 5x

Expected exit Revenue: £750mn+

With a 10% Market Share → You need a Market Size of £7.5bn+!
The art of Market Sizing
The art of Market Sizing

A. The market sizing funnel

B. Market sizing techniques
   a. Top-down
   b. Bottom-up
   c. Value theory

C. How to increase your market share?

D. Examples from EF cohorts
A

THE MARKET SIZING FUNNEL
Market size questions can often be seen as a formality / tick box exercise questions in the fundraising process
02. THE ART OF MARKET SIZING
   A. The Market sizing Funnel

Throwaway comment  Important contributor
4 ways to think about market size

Total Market

TAM

SAM

TARGET
Investors are not interested in your Total Market = vanity metric
Total Addressable Market
- Total potential/relevant market size
- Drone manufacturers

Serviceable Available Market
- Total reachable market size
- Drone manufacturers in Europe

Target Market
- Most accessible segment of SAM
- High-end manufacturers in the UK
B

MARKET SIZING TECHNIQUES
There are 3 main approaches to calculate your market size:

- **Top down**
- **Bottom up**
- **Value Theory**
02. THE ART OF MARKET SIZING
B. Market Sizing Techniques

Market sizing techniques

Top-down
THE ART OF MARKET SIZING
B. Market Sizing Techniques
   Top-Down

Top-Down Approach

- Understanding Macro Economics
- Competitiveness / Penetration
- Addressability
This would usually be based on an external report validating **total industry value**, such as:

+ Gartner
+ Forester
+ Statista
+ ONS
+ Consulting Reports
Let’s try to find a market for “Sales CRM AI software for gym operators in SG.” using a Top-Down approach...
“Sales CRM AI software for gym operators in SG.”

- Total gym market in Singapore is $288M
“Sales CRM AI software for gym operators in SG.”

- Total gym market in Singapore is $288M
- SMB spent 6.9% on IT .. we’re at $20M
“Sales CRM AI software for gym operators in SG.”

- Total gym market in Singapore is **$288M**
- SMB spent **6.9% on IT** .. we’re at **$20M**
- Only **9% for software** .. so **$1.8M**
“Sales CRM AI software for gym operators in SG.”

- Total gym market in Singapore is **$288M**
- SMB spent **6.9% on IT** .. we’re at **$20M**
- Only **9% for software** .. so **$1.8M**
- Within software **CRM represents 7%**, leaving **$126k**
‘Top-down’ approach is probably too generic to effectively demonstrate depth of thinking and true market opportunity.
It also has a **pitfall**: Assuming that the company’s disruptive product won’t change the size of the TAM

**Example:** Uber
Exercise 1 (10 mins)

In your groups, pick a business and estimate the market size using a ‘Top-down’ approach

- The business can be
  - An idea you have and would like to explore
  - An existing company (go small)
- Focus on the method - TAM/SAM/Target
  - Accurate numbers aren’t important at this stage
  - Make assumptions
Market sizing techniques

Bottom-up
02. THE ART OF MARKET SIZING
B. Market Sizing Techniques
   Bottom-Up
Number of customers x price each customer is willing to pay
Let’s do a **Bottom-Up** example

- You have 1 person fulltime on outbound sales
- Your software has 2 plans $149 and $299
- \( \frac{2}{3} \) of market buys $149, \( \frac{1}{3} \) buys $299
Let’s do a **Bottom-Up** example

- You have 1 person fulltime on outbound sales
- Your software has 2 plans $149 and $299
- \( \frac{2}{3} \) of market buys $149, \( \frac{1}{3} \) buys $299
- You do 250 calls/week w 20% to online demo
Let's do a **Bottom-Up** example

- You have 1 person fulltime on outbound sales
- Your software has 2 plans $149 and $299
- $\frac{2}{3}$ of market buys $149, \frac{1}{3}$ buys $299
- You do 250 calls/week w 20% to online demo
- You convert 30% from demo to trial
  - $250 \times 0.2 \times 0.3 = 15 \text{ trials/week} = 60 \text{ trials/month}$
Let’s do a **Bottom-Up** example

- You have 1 person fulltime on outbound sales
- Your software has 2 plans $149 and $299
- \( \frac{2}{3} \) of market buys $149, \( \frac{1}{3} \) buys $299
- You do 250 calls/week w 20% to online demo
- You convert 30% from demo to trial
  - \( 250 \times 0.2 \times 0.3 = 15 \) trials/week = 60 trials/month
  - 40% convert to paid = 24 cust/month
Let’s do a **Bottom-Up** example

- You have 1 person fulltime on outbound sales
- Your software has 2 plans $149 and $299
- ⅔ of market buys $149, ⅓ buys $299
- You do 250 calls/week w 20% to online demo
- You convert 30% from demo to trial
  - $250*0.2*0.3 = 15 trials/week = 60 trials/month
  - 40% convert to paid = 24 cust/month
  - \((24 \times \frac{2}{3} \times $149) + (24 \times \frac{1}{3} \times $299) = $4,776\)

  **Annual contracts = $57,312 / FTE/m**
This approach gives you an opportunity to show in-depth understanding of your market...
... and demonstrate a structured model of thinking about potential future scale of your company.
It also gives you an opportunity to really sell growth potential of your company.
Exercise 2 (10 mins)

In your groups, estimate what you can capture from your market using a ‘Bottom-up’ approach

- The business can be
  - An idea you have and would like to explore
  - An existing company (go small)
- Focus on the method - What are you selling? How much for? What are the conversion rates? What can your sales team capture?
  - Accurate numbers aren’t important at this stage
  - Make assumptions
Market sizing techniques

Value theory
Here’s how much **value** we can **add**, and why we’ll be able to **capture** it.
Value Theory example: Uber

- Use case: **transportation** (walking, public transport, biking, taxi, driving etc)
- Look at transportation data: **how much would a user pay to be driven instead of each option?**
- **Project price** of rides at different levels of scale
- Make argument for **why Uber could capture that** (10x as fast as other services?)

**TAM:**
Value created x % captured
Summary: Triangulate a number with these 3 approaches

**Top-Down**
Percentage of total revenue in current market

**Bottoms-Up**
Customer or competitor customer spend on this solution

**Value Theory**
Value you can add to existing markets
Exercise 3 (10 mins)

In your groups, estimate your market size using the ‘value theory’ approach

- The business can be
  - An idea you have and would like to explore
  - An existing company (go small)
- Focus on the method - value created & % captured
  - Accurate numbers aren’t important at this stage
  - Make assumptions and be creative!
● TAM expansion
  ○ removing friction
  ○ increasing convenience
  ○ enabling new use cases
  ○ lowering price
● Credible adjacencies
● Nascent market potential
● Frequency of use
Airbnb early investor deck

Starting from the *temporary housing market*, they ended up expanding the TAM by *removing friction, increasing convenience and enabling new use cases*.

**Market Validation**
- 630,000 listings on temporary housing site couchsurfing.com
- 17,000 temporary housing listings on SF & NYC Craigslist from 07/09 – 07/16

**4 Market Size**
- 1.9 Billion+ TRIPS BOOKED (WORLDWIDE)
- 532M BUDGET & ONLINE TRIPS
- 10.6M TRIPS W/AB&B

*Template by PitchDeckCoach.com*
THE ART OF MARKET SIZING

C. How to increase your market share?

- TAM expansion
  - removing friction
  - increasing convenience
  - enabling new use cases
  - lowering price

- Credible adjacencies

- Nascent market potential

- Frequency of use
Amazon is one of the best examples of a business that kept growing using credible adjacencies, moving from selling books to selling everything.
C. How to increase your market share?

- TAM expansion
  - removing friction
  - increasing convenience
  - enabling new use cases
  - lowering price
- Credible adjacencies
- Nascent market potential
- Frequency of use
Entering a new or nascent market:

New market that is small today, but will be big in the future

- Autonomous vehicles
- Edge computing

Very risky. No data. You set the rules.
Best way to reach #1 in the market (1st mover)
Square is a company that allows merchants to accept mobile credit card payments via a dongle.
How to increase your market share?

- TAM expansion
  - removing friction
  - increasing convenience
  - enabling new use cases
  - lowering price
- Credible adjacencies
- Nascent market potential
- Frequency of use
Frequency with which users interact with product/service tends to correlate with size of opportunity.

Something that becomes a regular behavior with a large swath of the population generally has an opportunity to build a big business.
Exercise 4 (5 mins)

In your groups, discuss 3 ways you can increase your market share

- The business can be
  - An idea you have and would like to explore
  - An existing company (go small)
- Focus on the method - TAM expansion / credible adjacencies / nascent market potential / frequency of use
  - Make assumptions and be creative!
EF application form: www.joinef.com/apply-to-ef/

Referral form: www.joinef.com/refer-a-friend/

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