



What's the Difference Between a US\$0 Million and a US\$0 Billion Company?

During last year's Khosla Ventures Summit, leading tech venture capitalist (VC) Vinod Khosla raised a very interesting question: what is the difference between a US\$0 million and a US\$0 billion company? Companies that are just starting out do not have a product, employees, or revenue—only a promise. So why, then, do different companies end at up very different places? Why do some, like WhatsApp, become unicorns, with stratospheric valuations, while some become modest lifestyle businesses, and so many others fail? Is it purely chance, or is there a structured way to go about building a billion-dollar company?

Before we address that question, it is important to understand that there is a continuum in the very definition of success, with no absolutes in terms of what a desirable outcome is to a start-up. The most important thing is for you, as an entrepreneur, to understand your end goal and to be able to build and execute a plan to meet that objective. In power electronics, we see that many start-up opportunities are built around integrating fast-mov-

ing component technologies into new capabilities, often resulting in successful profitable companies with US\$10–100 million in sales. We also see regionally focused system integrators, installers, and consultants that are at the deployment and installation end of some of these technologies and are critical for the overall success of new solutions but with success that may be defined at US\$1–10 million in annual sales.

At the other end, there are companies reaching the multibillion-dollar scale in hugely disruptive opportunities, such as distributed photovoltaics (PVs) and light-emitting diode (LED) lighting, areas that have rapidly transitioned from technical curiosities to massive industry sectors with available markets in excess of US\$100 billion, all within a narrow span of about ten years. This has been achieved through initial regulatory incentives, which attracted the solution providers but, in turn, unleashed disruptive competitive forces and caused rapid and dramatic reduction in cost, even as performance was improved. Entrepreneurs have provided the spark that has driven technology developments at an ever-increasing pace. This innovation has come from diverse places, including China, Germany, Spain, India, and the United States—essentially from all over the globe.

For the US\$0 million start-up, the need for an improved product and/or

service in the market is often fairly clear. The entrepreneur and team identify a gap in the market and position a solution they feel will give them the ability to grab a significant share of the market. The competitive advantage could be technology, market insight, or speed of execution. The ability to define the needed products precisely, to get customer buy-in, and to execute rapidly and cost effectively are the key attributes needed for success. A focused and experienced team increases the chance of success. This type of company is easiest for angel investors to understand and fund. (An angel investor or angel is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.) Such a company also often offers a faster time to profitability.

Many companies, especially those coming out of university research and development, are often at the cutting edge of technology and are sometimes positioned as US\$0 billion companies because they hold the promise of disrupting large industry sectors. Examples include high-power SiC devices or high-efficiency silicon solar cells in the 1980s. While it is true that such disruptions may happen (and actually did in the case of PVs and LED lighting), the challenge is in projecting the time scale over which such transformation can occur. For many years, often decades, the technology can only serve niche markets with small revenues and must

In subsequent columns, the columnist will share learning and experiences as well as discuss the challenges of obtaining venture capital funds.

operate as a US\$0 million company. Yet, the technology development process can require significant research and development resources. A government–industry cooperative model may be appropriate for such a venture.

Within the VC community, there is an overall obsession with having a start-up rapidly achieve a valuation greater than US\$1 billion and becoming a unicorn. There are a few things that define such opportunities. US\$0 billion start-ups often define new mechanisms to deliver high value to a large group of existing and easily accessed customers. The new value delivery is based on new data, analytics, insight, and intellectual property that cannot be matched by existing market leaders, first because they cannot move fast and, second, because such moves would cannibalize their existing businesses. The cost of delivering the new service is low and can be scaled without high capital cost. The solution provides hooks to acquire and service the customer on an ongoing basis, allowing

retention of margins. The team understands how to define and deliver value in new markets, where there is no established need and no budget for your solution and where the market leaders are blocking your entry into the market. The start-up team is flexible and is able to pivot as feedback is received from the market. This also creates significant uncertainty for the VCs and requires VCs who share the vision and have the patience.

At first glance, the US\$0 billion start-up appears to be a win–win for everyone involved, especially for the entrepreneur and the employees, and, when this occurs, the results can be astounding. However, when the push is to make every start-up a unicorn, big challenges emerge. The high valuations in the subsequent rounds, typically not supported by revenues, result in severe antidilution penalties from the newer investors. Missing any metric on the growth path can severely penalize the entrepreneur and employees. It can also focus the company on achieving unicorn status in the

short term, when that may not be the optimal time to push for the US\$1 billion valuation. The best approach for the team is to focus on growing the company and doing what is right for mid- to long-term growth.

So yes, there is a significant difference between a US\$0 million and a US\$0 billion company, and it is important to understand this difference.

About the Author

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