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# NEXT STEP



## VENTURE CAPITAL 101

In conversation with Fenox Venture Capital VP Kyle Kling

*Bangladesh is now home to a growing startup scene. With all the exciting startups in the play, venture capital firms are being lured in. We got in touch with Kyle Kling, Vice President of Business Development at Fenox Venture Capital. Fenox Venture Capital, a global VC firm headquartered in Silicon Valley, invests in consumer Internet, mobile, Cloud, SaaS and enterprise businesses. Kyle answers some basic queries about venture capital in Bangladesh to Next Step.*

### Why should a startup go for VCs, not banks or other financial institutions?

Well, getting money from banks is great but there are a few problems. Firstly, you have to pay an interest rate. And that can be expensive. Remember, you are a startup, which means you don't have any money – that is why you are asking people for money in the first place. Of course there is an upside to working with a bank – you don't give away your company's equity.

But it must be kept in mind that a bank is not your partner. So they are not going to give you advice, mentorship, or access to corporations and the global window. We, the VCs, take a small amount of your equity – we are not buying out your business. You are still the majority shareholder even through some of the later stages of funding. We make sure you have the final say when it comes to making crucial decisions.

So basically I, the VC, am becoming a part of you. If you fail, it is a failure in my portfolio and to all my investors. So it is in my best interest to make sure that you succeed, no matter what.

This is a big, big difference between a VC and a bank. You will get money from a bank, but from a VC, you'll get smart money – because of all the advice and mentoring that comes with the investment.

### What are the most crucial points a VC looks for in a startup?

There are three pillars. First, it has to be a great

team. I have to trust you because I am literally writing you a million dollar cheque. I have to believe that you are the right person to build and scale this business. You are the one who knows it and gets it. I have to believe that you can take the company from zero to 10 million, 100 million or even 1 billion dollar valuation.

Second, the product has to be something that has a lot of potential. It doesn't have to be something that hasn't been built before. There are times when we see a business enter a saturated market by doing something different then their competitors. You need to prove that you are better and different than your competitor.

Last but not least, there is the issue of the market size. For example in the US, we look for companies with a market size of over USD 100 million.

### When does a VC expect return on their investment? Is there a timeframe?

The fund lifecycle for a tech business is generally 8-10 years. When a VC invests in a business, they look for an exit period of 3-7 years. So VCs start planning an exit 2 years before the end of the fund cycle because we need to get the money back to our investors. But it varies with region. In US, the expectations are high. So we expect to see the startups meet the milestones in 6 month to 1 year. Otherwise it's a red flag. In that case we have to devise an early exit plan.

### What is the current startup scene in Bangladesh?

The startup scene of Bangladesh is still at the earlier stages. There are lots of gaps in the startup scene right now. Surely, there are great startups, great founders and great individuals with exciting ideas, but there isn't any vehicle to support the growth of the startup ecosystem. Interestingly, the scene is changing. Many key components are aligning together and the total startup ecosystem is scaling up. Well, that is the reason why I travelled so far to come here. And you will see more of me in Bangladesh now.

### What is Fenox Venture Capital's plan for Bangladesh?

If you look through our portfolio you will get to see that most of the businesses we work with are technology companies. Unlike many other VCs we don't restrict ourselves to a certain type of tech companies. Rather we work with all types: mobile, cloud, SaaS, tech media, etc. We work with broad technology types because we want to invest in anything that is emerging and exciting and we can keep on growing in. In Bangladesh, we are looking for the same thing.

INTERVIEWED BY: SHAHRIAR RAHMAN

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## How startup funding works

A look at the top sources of funding in startups

### 1 ANGEL INVESTORS

An angel investor is an affluent individual who provides capital for a business startup, usually in exchange for convertible debt or ownership equity. There are lots of informal angel investors getting in touch via startup events

### 2 PERSONAL SAVINGS & CREDIT

The majority of startups (around 60% of all startups) are funded largely in part by the founder's personal savings and credit

### 3 VENTURE CAPITAL

Venture capital firms take a small amount of a startup's equity and act as investment partners. Firms such as Fenox Venture Capital have been getting involved through various startup events such as the Startup Bash, Startup Weekend and Innovation Xtreme

### 4 FRIENDS & FAMILY

Friends and family usually support startups in their beginning stages, accounting for up to 40% of the investment that goes into them

### 5 BANKS

Banks charge high interest rates, making this a difficult option for most startuppreneurs. But initiatives such as the SME Foundation and Bangladesh Bank Equity and Entrepreneurship Fund (EEF) offer equity to projects in the agro-based, food-processing and IT sectors

## Making a DIFFERENCE

Bangladesh is rapidly moving towards middle income status by 2021. Our businesses definitely offer immense opportunities for the growing economy and this diversity needs a stage for the stories untold. See Bangladesh make its mark on the global map as Making a Difference brings our proudest success stories from across the country.

## Change your attitude toward challenges and blast off

When marketing guy Scott Cook got frustrated with balancing his cheque books, he went ahead and started his very own software development company to help pay the bills. The result? Multi-billion dollar software company Intuit Inc. which has been helping countless individuals and small companies manage their finances. While we are not all entrepreneurial geniuses, there is something to be learnt from Mr. Cook's success story. You will probably have a hard time visualising turning a problem into an opportunity to grow, to make money or to make a change. But in the face of a challenge, the easier thing to do is to change the way you look at it. Change your frame of reference and the hypothetical train-wreck waiting for you on your office desk turns into a perfectly manageable situation that is well within your abilities to address. The way you think about the challenge at hand will determine your attitude or approach to it.

The first step is to change the word "challenge" or "problem" to "situation". While the words "challenge" and "problem" trigger emotions of apprehension, frustration and anxiety, "situation" is neutral. Say it to yourself: "We have a situation here". You will feel yourself getting freed from the psychological burden that you had been associating with the issue in your mind.

Another technique is to visualise what is threatening you. Do you see swiftly approaching walls closing in on you? Then get yourself a rope, or

a ladder or even better, get yourself a jet pack. If you can do it in your head, it will be that much easier when you are doing it in real life because you have already faced your fears once. Once you have dealt with the emotional aspect, you can focus all your energy on coming up with a strategy or a plan of action.

The last piece of advice you should give to yourself when working on a challenge is to look for the advantages or benefits. Take a blank page and divide it down the middle. Now write "problems" on one side and "opportunities" on the other. These are the two sides to the challenge you are facing. Jot down everything that scares you under "problems". Once you're done with that, move to the "opportunities" column and write down what new capabilities your problem gives you. You got rotated to a new department? Think about all the ways you can make a great first impression – there's your trump card right there.

You can't control what life throws at you, but you can take complete control of your thinking and your emotions. Next time you feel overwhelmed with all the lemons life throws at you, adjust your attitude and power on!

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