Practitioner information

Introduction

This resource complements your core teaching about sources of funding for enterprise. It helps learners consider the factors that investors will assess and which create future value for a startup or scaleup, starting with creating new customer value that competitors cannot easily copy. Learners are introduced in simple terms to some ways in which an investor might value a startup by considering risks areas and comparing the startup to benchmark companies in its sector.

Topic links

- Enterprise
- Sources of funding for startups
- Financial and economic concepts

Suggested learning outcomes

Learners will be able to:

- list key sources of value in a startup enterprise
- describe what factors influence a pre-revenue valuation
- explain how the scorecard and venture capital (VC) valuation methods are applied to value a revenue-generating startup or scaleup.

Why this topic is relevant for engineers

Success in enterprise relies on a consistent focus on the right things. Learners need to understand that investors will make a realistic and often tough appraisal of their strengths and weaknesses, and look for a complete ‘package’ that demonstrates strengths in every key area. Successful entrepreneurs cannot rely only on an innovation: they will also need the ability to deliver both a product and company performance, combining both engineering and business skills.

Delivering the theory: Sources of value for investors

- Ask learners to suggest some highly valuable companies (for example, Apple, Alphabet (owners of Google), Tesla, Taiwan Semiconductors). Why are these companies worth so much? They all provide great products for large markets.
- Review the factors that add value. Learners could consider these factors for a company like Apple or Tesla.
- Emphasise the sources of value in these companies, from the value their products create to the quality of the people in the companies and the sales they make by targeting very large markets.
- You may wish to introduce the concept of a ‘competitive moat’: how a company can prevent competitors from taking its customers by protecting its intellectual property and offering value that is hard to replicate or difficult to switch away from.

Practitioner information

Delivering the theory: Pre-revenue valuation

- Learners do not need to remember the detail of valuation methods.
- Highlight that the value of a company before it launches and sells a product is based on its potential. This is more susceptible to subjective opinions than its value after launching and selling a product.
- Learners could suggest how each factor can become a risk and what a strong startup might do to minimise this.
- Mention that, in addition to using a method such as Berkus, an angel investor will also look at the size of the market the startup seeks to serve, how fast this is growing and how much of the market the startup might realistically reach in the short and longer term.

Delivering the theory: Post-revenue valuation

- Highlight that venture capital firms will use several methods to settle on a valuation, which reduces the risk of a single method giving an inaccurate picture.
- The scorecard method expands the Berkus method. Make sure learners understand the distinction between the weighting and comparison scores. Discuss how different weightings and comparison scores might influence an investor decision. For example, can learners suggest a situation that would make the investor walk away?
- Help learners to see that the scorecard method relies on strong industry knowledge – this suggests that the investor will subject the startup to thorough and knowledgeable questioning.
- Learners can use the **Valuing startups and scaleups online interactive tool** to explore how assumptions about future revenue and growth affect the stake an investor might expect in a growing business. The answer sheet provides additional questions to explore these ideas further.

Delivering the case study: Valuation, ownership, and success

- Start by discussing the basic idea of the startup. Do learners think this is a strong idea in a growing market?
- Discuss each investor's brief description. What do these tell learners about each investor's knowledge, experience, and expectations?
- Review the weightings – these reflect what is most important to each investor.
- Then review the comparison scores – these reflect each investor's view of each aspect of the startup. Can learners link these with what they know about each investor?
- Again, learners can suggest how each investor's benchmark score might reflect their experience in the renewable energy sector.
- Discuss the advantages and disadvantages of choosing an experienced investor who has more reservations about the company, with a less-experienced investor who appears more optimistic. How might this affect the relationship in the short and longer term?