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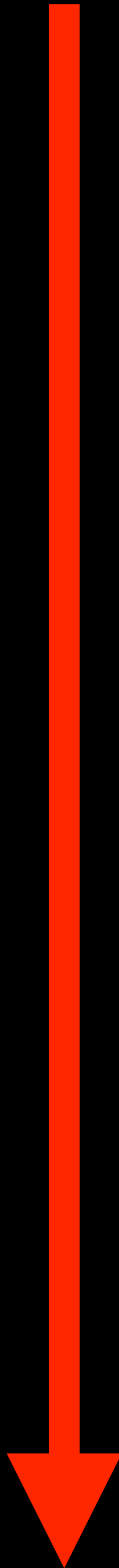
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Develop a capital strategy.

BUS-217



Week 1: Listen to the waves.

Week 2: Create something people want.

Week 3: Draw the landscape.

Week 4: Build an engine of growth.

Week 5: Create an economic model.

Week 6: Develop a capital strategy.

Week 7: Frame a funnel.

Week 8: Be a master storyteller.



But first, we need to talk about Corporate Entities.

LLC, S-Corp, C-Corp, 501(c)3?

**Your capital strategy will influence
your choice of corporate structure.**

BUS-217: Legal Entities for Businesses in the US.

	Survivorship.	Liability Shield.	Tax Flow-Through	Shares of stock.	Classes of stock.	Notes
Sole Proprietorship	No.	No.	Yes.	No.	No.	Default. If you do nothing, this is what you are.
Partnership	No.	No.	Yes.	No.	No.	Same as sole proprietorship, but with multiple owners.
LLC	Yes.	Yes.	Yes.	No.	No.	Owners are called "members"; no shares of stock.
S-Corp	Yes.	Yes.	Yes.	Yes, limited to 100 Shareholders	No.	You create a C-corp and then make an "election" to be treated as an S-corp.
C-Corp	Yes.	Yes.	No.	Yes, unlimited.	Yes.	The "big daddy" option. Well-understood and preferred by VC investors.
501(c)3	Yes.	Yes.	Exempt.	No.	No.	Also called a "non-profit" organization. Except from taxes.
Benefit Corp	Yes.	Yes.	No.	Yes, unlimited.	Yes.	Not recognized in all states.

In choosing a legal entity for your business, there are three important concepts to understand:

- **Personal liability. If the company is sued, can they come after your personal assets?**
- **Tax flow-through. Do the company profits get reported on your personal tax return?**
- **Ownership Structure. With multiple owners, is there a way to define who owns what percentage and what rights they each have?**

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What's the deal with Delaware?

- **The majority of F500 companies are incorporated in Delaware.**
- **If you are going to solicit venture funding, investors will probably require it.**
- **Pro-company legal jurisdiction (CA is much more pro-shareholder).**
- **Special court system, experienced judges, lots of case law.**
- **Overall cost is slightly higher than California (and you are still subject to CA franchise tax and filings).**

The Big Question for Entrepreneurs.

“Should I do the legal formation myself, or hire a lawyer?”

- **It depends.**
- **You can do it yourself with filing fees less than \$1,000, or you can have a full-service law firm do it for ~\$5,000, or you can negotiate a flat-fee deal with many law firms for less (because they want your downstream business).**
- **Clerky, Nolo, and LegalZoom all offer do-it-yourself forms.**

Financing your startup.

Bootstrap? Angel Capital? Venture Capital?

Many ways to finance a business:

- Your own pocket.
- Your own friends and family.
- Supplier financing.
- Customer financing.
- Bank Loan
- Factoring
- Crowdfunding (Kickstarter, etc).
- Borrow from your 401(k).
- Pre-sales
- SBA Loan
- Angel List syndicates
- Angel Investors
- Venture Capital Funds
- Impact Funds
- Foundation Grants
- Buy a lottery ticket (not a recommended strategy).

Sources and Structures of Startup Capital

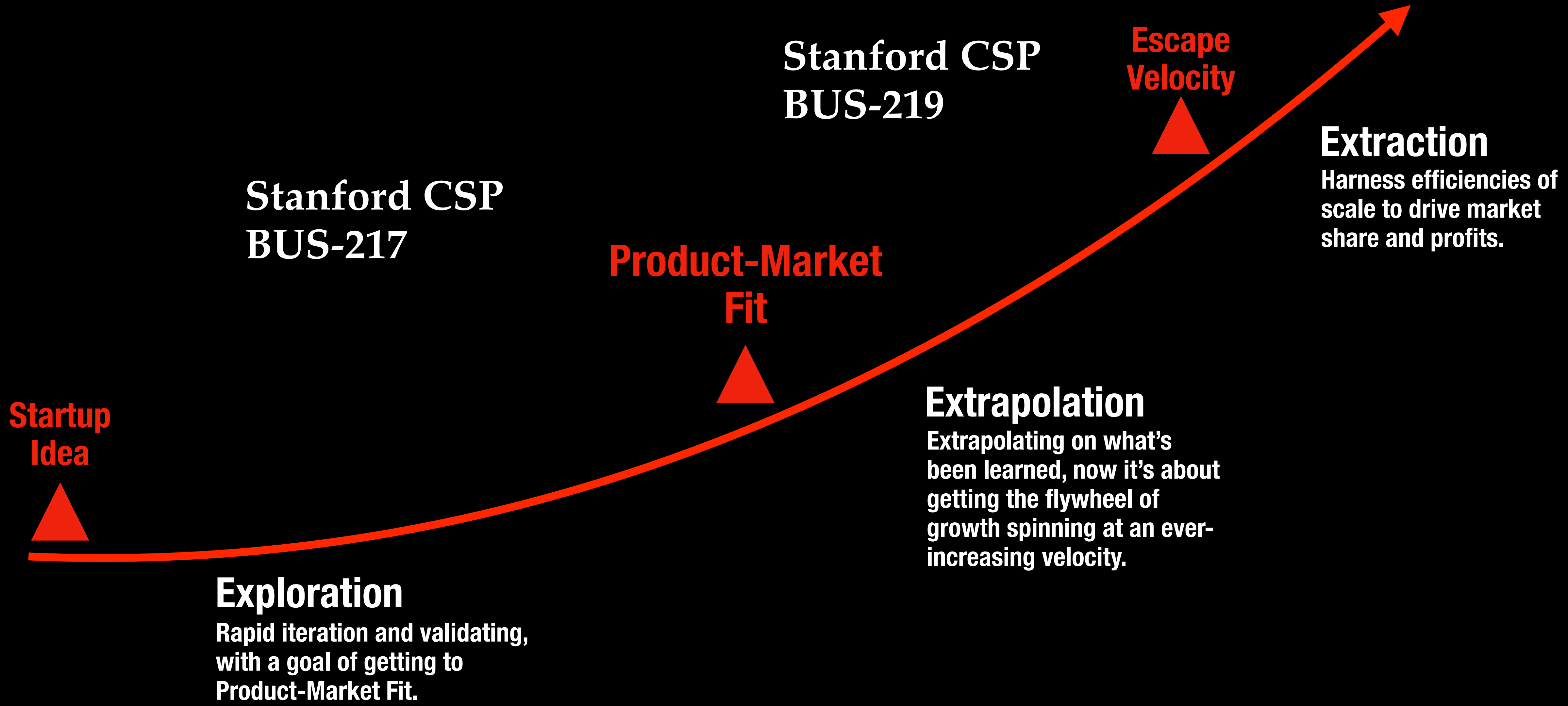
	Typical check size.	Typical investment structure.	Typical stage.	A good fit for:	Notes
Angel Investors	\$25K - \$500K.	SAFE or Convertible note.	From idea to PMF.	Very early stage ventures.	Because they are investing their own money, they can make a “leap of faith” investment decision.
Venture Capital Firms	\$1M - \$500M.	Equity.	Growth stage after PMF.	High-growth startups with billion dollar potential.	They have a fiduciary responsibility to make rational investment decisions, and a model that is not always aligned with the founders.
Crowdfunding.	\$10K - \$1M.	Mixed.	Idea.	Creative projects, and also pre-sales of physical items.	There’s a lot of regulation around selling private stock that can make crowdfunding problematic.
Impact funds.	Wide range.	Debt, soft-debt, demand dividend, rev share, SIBs. General not equity, as	After PMF and after impact metrics proven.	Nonprofits and social ventures.	Need to have solid impact metrics plus enough cash flow that the capital can make a round trip back to the fund eventually.
Foundations.	Wide range.	Grant.	Wide range.	Nonprofit organizations.	Grants today are typically tied to impact metric goals.
PE Firms.	\$10M plus.	Equity.	Late, and /or distressed.	Founders wanting to sell control and get exit liquidity.	Not typically relevant in the startup world except during crazy times like 2020-23
Corporate Venture Capital.	Wide range.	Equity.	Early-ish.	Ventures where a strategic partnership is important to growth.	CVC firms have a variety of mandates. Make sure you ask what theirs is.
Non bank lenders	Wide range.	Debt or points, sometimes plus warrants.	Growth.	E-commerce ventures with a proven CAC:LTV.	Typically non-dilutive, which can make this very attractive.

There are lots of great ways to finance a new startup venture.

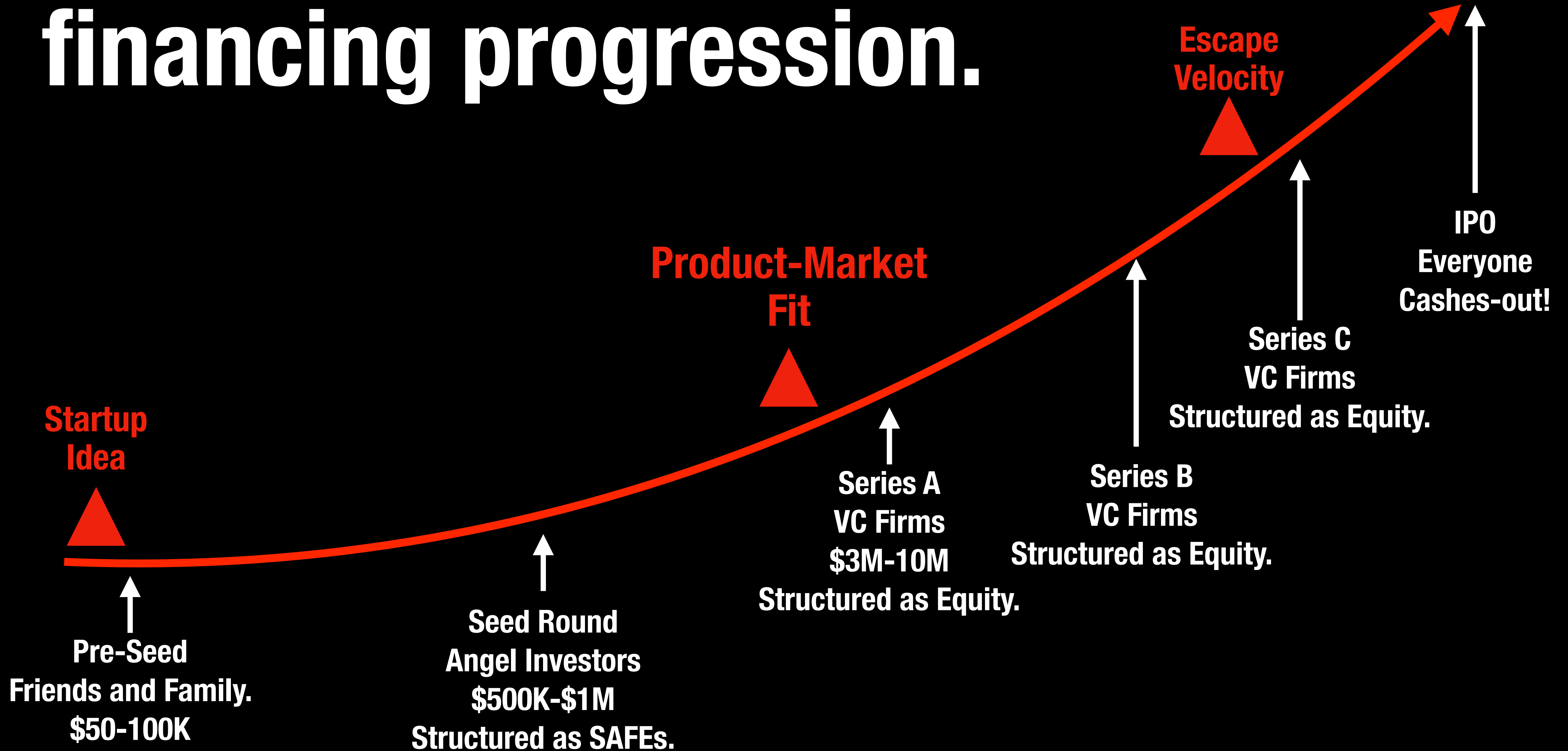
But here in Silicon Valley, many of you probably are in this course because you want to know the Silicon Valley Unicorn process.

So here we go.....

Stages of a venture.



The typical Silicon Valley financing progression.



Angels

Individuals investing their own money. No fiduciary responsibility to anyone. Tend to invest early-stage where it is a “gut” investment decision. Typical check size \$25K-\$500K.

VS.

VC's

General Partners investing from a fund they have raised from Limited Partners (insurance companies, pension plans, university endowments). Tends to be at the growth stage (not the idea stage). Typical check size \$1M-\$100M.

Capital Comes in Two Flavors:

Debt

Has to be repaid (principal + interest) over some defined amount of time. Debt holder has no claim of ownership to the company, and is not entitled to any share of future profits.

vs.

Equity

No repayment obligation. Investor owns a percentage of the company and has a pro rata claim to future profits. Investor hopes to sell their equity in the company in the future at a profit.

Two exceptions: Grants and Contracts

Capital Comes in Two Flavors, Debt and Equity, but there are these two exceptions:

Grants

Grants are neither debt nor equity. They are “free money”, although often come with certain strings and expectations.

Contracts

A SAFE is a contract that offers the opportunity to buy equity in the future. A license or revenue share financing would also be examples of contract capital.

Capital Comes in Two Flavors:

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Two exceptions: Grants and Contracts

Pros and Cons of Debt vs Equity

ADVANTAGES OF DEBT COMPARED TO EQUITY

- Debt does not dilute the owner's ownership interest in the company.
- A lender has no direct claim on future profits of the business.
- Interest on the debt can be deducted on the company's tax return, lowering the actual cost of the loan to the company.
- Raising debt capital is less complicated because the company is not required to comply with state and federal securities laws and regulations.
- The company is not required to seek the vote of shareholders before taking certain actions.
- In liquidation debt is always senior to equity (meaning that debt holders get paid first, before equity holders).

DISADVANTAGES OF DEBT COMPARED TO EQUITY

- Unlike equity, debt must at some point be repaid.
- Cash flow is required for both principal and interest payments and must be budgeted for.
- Debt instruments often contain restrictions (covenants) on the company's activities.
- The larger a company's debt-equity ratio, the more risky the company is considered by lenders and investors
- The company is usually required to pledge assets of the company to the lender as collateral, and owners of the company are in some cases required to personally guarantee repayment of the loan.

Your parents told you to avoid debt. They're not wrong, but....

“I’ll lend you \$500K for your startup, 6%, 5 years”

Total cost: \$79,984 in interest.

**“Psst - don’t take that! I’ll give you the same amount,
with zero payments! Just give me 20% equity.”**

**20% of all future profits and eventual sale of your company
is hopefully worth way more than \$79,984!**

It's difficult for startups to get debt capital, and that's the reason the VC business exists.

You may well end up with equity capital, but don't fool yourself into thinking it's cheaper than debt.

It's probably not.

Capital Comes in Two Flavors:

Debt

Has to be repaid (principal + interest) over some defined amount of time. Debt holder has no claim of ownership to the company, and is not entitled to any share of future profits.

vs.

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No repayment obligation. Investor owns a percentage of the company and has a pro rata claim to future profits. Investor hopes to sell their equity in the company in the future at a profit.

**Venture Capital transactions are
(nearly) always equity financings.**

In an equity financing, the investors are buying stock in the company.

So how does a venture capitalist get a return on their investment?

An IPO (selling their stock to the public), or M&A (selling their stock to the acquiring company).

Equity Financing Math:

Post-Money Valuation = \$3M



Every equity financing transaction follows this simple math.

**What the company is worth
before the financing.**

**The new capital going into the
company in this financing.**

Equity Financing Math:

Post-Money Valuation =



Founders own 66.7% Pre-Money Valuation = \$2M	Investors own 33.3% New Money \$1M
--	---

Equity Financing Math:

Post-Money Valuation = \$20M



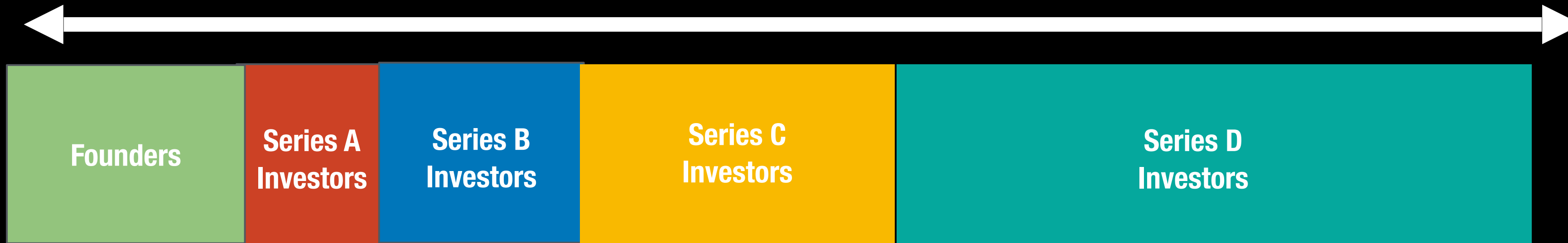
Equity Financing Math:

Post-Money Valuation = \$80M



Equity Financing Math:

Post-Money Valuation = \$900M



Key Terms in Equity Financing

Percentage of the company which investors will own.

Special preferences which investors have associated with their shares.

Two Flavors of Stock

COMMON SHARES

Typically held by founders and employees (often in the form of options).

PREFERRED SHARES

Typically held by the investors, and has certain “preferential rights” associated with those shares of stock.

The most important of which is liquidation preference.

If they invest \$1M with liquidation preferences of 1x, then upon liquidation of the company the first million out comes back to them.

Convertible Notes and SAFEs

Seed-stage startup investment instruments that turn into equity later.

Startup Convertible Note Agreement

1. THE PARTIES

This Startup Convertible Note Agreement ("Agreement") is made on [Month Day, Year] (the "Effective Date") by and between [**Your Company Name**] (hereinafter referred to as "Company"), located at [Your Company Name] and [**Second Party Name**] (hereinafter referred to as "Investor"), located at [Second Party Address]. The parties hereinafter may also be referred to individually as "Party" and collectively as "Parties."


2. INVESTMENT AMOUNT AND TERMS

2.1 Principal Amount and Payment Terms

The Investor agrees to purchase from the Company a Convertible Note in the principal amount of \$500,000. This principal amount represents the initial investment made by the Investor. The Convertible Note will be purchased in a cash amount equal to the principal amount, and payment shall be made within 30 days of the Effective Date.

2.2 Interest Accrual

The Convertible Note will accrue interest at a fixed rate of 5% per annum. Interest will begin accruing from the Effective Date and will be calculated based on the outstanding principal amount. The interest will be due and payable upon the occurrence of the conversion event or at the maturity date, which is set at 24 months from the Effective Date.

About ▾ Companies ▾ Library  Partners Resources ▾

By Carolynn Levy

Download the Safe

US companies

There are three versions of the post-money safe intended for use by US companies, plus an optional side letter.

- [Safe: Valuation Cap, no Discount](#)
- [Safe: Discount, no Valuation Cap](#)
- [Safe: "Uncapped MFN" \(no Valuation Cap, no Discount\)](#)
- [Pro Rata Side Letter](#)
- [Safe User Guide](#)

A SAFE is an instrument (contract) that for future purchase of stock (equity) in a startup.

I'll put \$100K in now, in return for being able to use that \$100K to buy stock in your future VC round of financing at whatever price those VCs are paying for their stock.

SAFE
(Simple Agreement for Future Equity)

THIS CERTIFIES THAT in exchange for the payment by [Investor Name] (the "Investor") of \$ [_____] (the "Purchase Amount") on or about [Date of Safe], [Company Name], a [State of Incorporation] corporation (the "Company"), issues to the Investor the right to certain shares of the Company's Capital Stock, subject to the terms described below.

This Safe is one of the forms available at <http://ycombinator.com/documents> and the Company and the Investor agree that neither one has modified the form, except to fill in blanks and bracketed terms.

The "Post-Money Valuation Cap" is \$[_____]. See **Section 2** for certain additional defined terms.

1. Events

(a) **Equity Financing.** If there is an Equity Financing before the termination of this Safe, on the initial closing of such Equity Financing, this Safe will automatically convert into the greater of: (1) the number of shares of Standard Preferred Stock equal to the Purchase Amount divided by the lowest price per share of the Standard Preferred Stock; or (2) the number of shares of Safe Preferred Stock equal to the Purchase Amount divided by the Safe Price.

In connection with the automatic conversion of this Safe into shares of Standard Preferred Stock or Safe Preferred Stock, the Investor will execute and deliver to the Company all of the transaction documents related to the Equity Financing; *provided*, that such documents (i) are the same documents to be entered into with the purchasers of Standard Preferred Stock, with appropriate variations for the Safe Preferred Stock if applicable.

Except that I want a slightly better deal than those VCs (the discount rate).

And I want a guarantee that I get to buy my stock at a valuation at no more than \$X (the valuation cap).

The reason SAFEs exist:

Post-Money Valuation = \$3M



Founders own 66.7%

Pre-Money Valuation = \$2M

Investors own 33.3%

New Money \$1M

They defer the question of valuation.

**TERM SHEET
FOR
SERIES A PREFERRED STOCK FINANCING**

This term sheet summarizes the principal terms of the Series A Preferred Stock Financing of [REDACTED] (the "*Company*"). This Term Sheet and any related correspondence are to be held in strict confidence and not disclosed to any party, other than the Company employees who reasonably need to know such information and professional advisors of potential investors.

OFFERING TERMS:

Company:	[REDACTED]
Security:	Shares of Series A Preferred Stock of the Company (" <i>Series A Preferred</i> " or " <i>Preferred Stock</i> ")
Amount of financing:	Up to \$1,000,000 in one or more closings
Price Per Share:	\$3.58182 (the " <i>Original Purchase Price</i> ")
Total Number of Shares to be issued:	2,791,875
Pre-Money Valuation:	\$2,000,000
Post-Money Valuation:	Up to \$3,000,000, including an unallocated option pool of 500,000 shares of Common Stock
Use of Proceeds:	Working capital and general corporate purposes

TERMS OF SERIES A PREFERRED STOCK:

DIVIDENDS: 8% of the Original Purchase Price per annum, if and when declared by the Board of Directors in preference to any dividend on Common Stock.

LIQUIDATION PREFERENCE: In the event of any liquidation, sale or winding up of the Company, the holders of Series A Preferred shall be entitled to receive prior and in preference to the holders of Common Stock an amount equal to the Original Purchase Price per share, plus any declared but unpaid dividends (the "*Liquidation Preference*"). After the payment of the Liquidation Preference the remaining assets shall be distributed ratably to the holders of Common Stock.

**TERM SHEET
FOR
SERIES A PREFERRED STOCK FINANCING (page 2)**

- CONVERSION:** The holders of Preferred Stock shall have the right to convert the Preferred Stock, at any time, into shares of Common Stock at an initial conversion ratio of 1:1, subject to adjustment as provided below.
- AUTOMATIC CONVERSION:** The Preferred Stock shall automatically convert into Common Stock, at the then applicable conversion price (i) upon election of a majority of the Preferred Stock or (ii) upon the closing of an IPO at a per share price not less than 3x the Original Purchase Price and for a total offering of not less than \$30 million (before deduction of commissions and expenses).
- ANTIDILUTION PROVISIONS:** The conversion price of the Preferred Stock shall be subject to adjustment to prevent dilution on a broad-based weighted average basis in the event that the Company issues additional shares of Common Stock or securities convertible into or exercisable for Common Stock at a purchase price less than the then-effective conversion price, subject to customary exceptions.
- VOTING RIGHTS:** The Preferred Stock will vote together with Common Stock and not as a separate class except as otherwise provided herein or as otherwise required by law. Each share of Preferred Stock shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of Preferred Stock.
- BOARD OF DIRECTORS:** The Board shall initially be fixed at three (5) directors. The Investors and the holders of Common Stock will enter into a voting agreement to provide for two directors to be elected by the Series A Preferred Stock, voting separately, and three directors to be elected by the Common Stock, voting separately, one of whom shall initially be [REDACTED].
- INFORMATION RIGHTS:** The Company shall provide the Major Investors (a "*Major Investor*" is a holder of 125,000 or more of the shares of the Company's Preferred Stock) with customary information rights.
- PREEMPTIVE RIGHTS:** In the event the Company proposes to offer equity securities to any person (subject to customary exceptions), Major Investors shall have the right to purchase their fully-diluted pro rata portion of such equity securities.

Capitalization Table for [REDACTED], Inc July, 2011

Stock Authorized	
Common Stock	10,000,000
Preferred Stock	2,875,625
Total Authorized Shares:	12,875,625

Issued/Reserved:		Shares	Percentage (fully-diluted):
Founders' Common Stock			
[REDACTED]		4,300,000	47.1%
[REDACTED]		450,000	4.9%
[REDACTED]		1,000,000	11.0%
Total Founders' Common Stock		5,750,000	63.0%
Series A Preferred Stock (on as-converted to Common Stock basis)		2,791,875	30.6%
Investors:			
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$200,000	558,375	6.1%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$100,000	279,188	3.1%
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$50,000	139,594	1.5%
[REDACTED]	\$25,000	69,797	0.8%
[REDACTED]	\$50,000	139,594	1.5%
Totals	\$575,000	1,605,328	17.6%
Series A authorized but not issued	\$425,000	1,186,547	13.0%
Warrants to Purchase Series A Preferred Stock (on an as-exercised basis)	[REDACTED]	83,750	0.9%
Stock Option Plan*			
Reserved and Available for Issuance	500,000	500,000	5.5%
		<hr/>	<hr/>
		TOTAL:	100%

9,125,625

Mechanics of a Venture Fund

The firm decides to raise a fund, and goes looking for investors in that fund. Typically the investors are foundations, pension funds, and high net worth individuals who put money in and become Limited Partners (LPs) in the fund.

The firm charges the LP's a 2%/year management fee and 20% of the "carry" (profits).

Typical funds have 10-year horizons. At the end of ten years the fund is dissolved and capital is distributed.

Most VC firms have multiple funds under management, some with a particular investment focus (early stage biotech, or growth-stage consumer, etc).

Running a Fundraising Effort

BUS-217 / Week 6 / Running a Fundraising Effort

So you've decided you want to go find some equity investors for your startup? Excellent! Be aware that it will take you longer than you think, and it will be hard on your ego because you will experience a lot of rejection, so it's important to use a structured process and approach it with intention. Here are ten tips for hitting the equity fundraising trail:

01 It's a numbers game.

I recently had a call with a founder who told me he'd just closed a nice round of capital. Over the past year, he had more than one hundred investor conversations. Of those, forty-two requested more information, twenty-three requested a third meeting, eleven submitted the deal to the partnership for an investment decision, four issued term sheets, and two invested. These numbers are actually pretty decent.

02 Play the long game.

The same founder also said that he kept investors engaged for many months — even those who had said "no." Over the year, he sent out quarterly updates to every investor he talked to, circled back with them about concerns they had expressed, and kept them informed as milestones were achieved. Raising capital is a sales process, and the sales cycle can be long. You're not going to pitch on Tuesday and have a term sheet on Wednesday. Play the long game, and you will succeed.

03 Don't visit devils if you're looking for angels.

Angel investors will invest at the idea stage; VCs typically will not. I've seen founders waste a lot of time pitching to the wrong people. Research the right investors and funds beforehand.

04 Solid economics are more important than ever.

Remove from your brain the mythology that investors will drop cash into crazy-ass ideas with no clear monetization. Investors today want to see opportunities where the founders have already proven the economic model, and it's ready to scale. It all comes down to $CAC < LTV$. You may not have actual data yet, but you need to have a compelling story about how the economics will come together.

05 Cold calls aren't efficient.

Every investor I've ever raised from in my career was either someone I knew socially or referred to me by someone I knew socially. Most VCs I know say they've never invested in a deal that came in over the transom. Focus your energy on getting warm introductions, and you will be 100x

Ten minute break.



Last week's **#social** channel assignment: What clears your head and puts you in a happy place?



Eldars Sa 3:19 PM

I love road bike rides and traveling, sometimes I combine these 2 hobbies.

e2ddf572-1bf2-4680-9e10-9e65b4c13be6 ▼



One sentence description:



Abai Zhaliev Thursday at 10:36 AM

Windiesel automatically plans every fuel stop — telling semi truck drivers where to fuel, how much to buy, and which card to use. (edited)



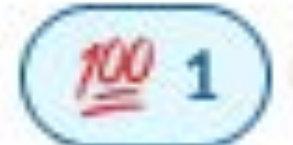
Daxing Yu 2:00 PM

BarPass is an AI-powered bar prep app built to help law students study smarter, retain more, and pass the bar with less wasted time.



PJ Hardas 3:38 PM

I'm working on a plant cultivation system that aims to minimize manual tending effort and maximize yield success rate.



One sentence description:



Larissa Friday at 1:00 PM

VysionAI is the strategic intelligence layer for executives navigating tough workforce transformation. (edited)

One sentence description:



Veronika Moroian Thursday at 11:49 AM

I have two options that I use depending on who I am speaking with about VosMas: 1) Empowering professionals with trusted AI upskilling content. 2) Building the Netflix for educational content. Any thoughts about which one you like better?

Every great entrepreneur has a nesting doll set of pitches.



← **Close the deal!**

← **1- Hour Meeting**

← **3-Minute Pitch**

← **60-Second Pitch**

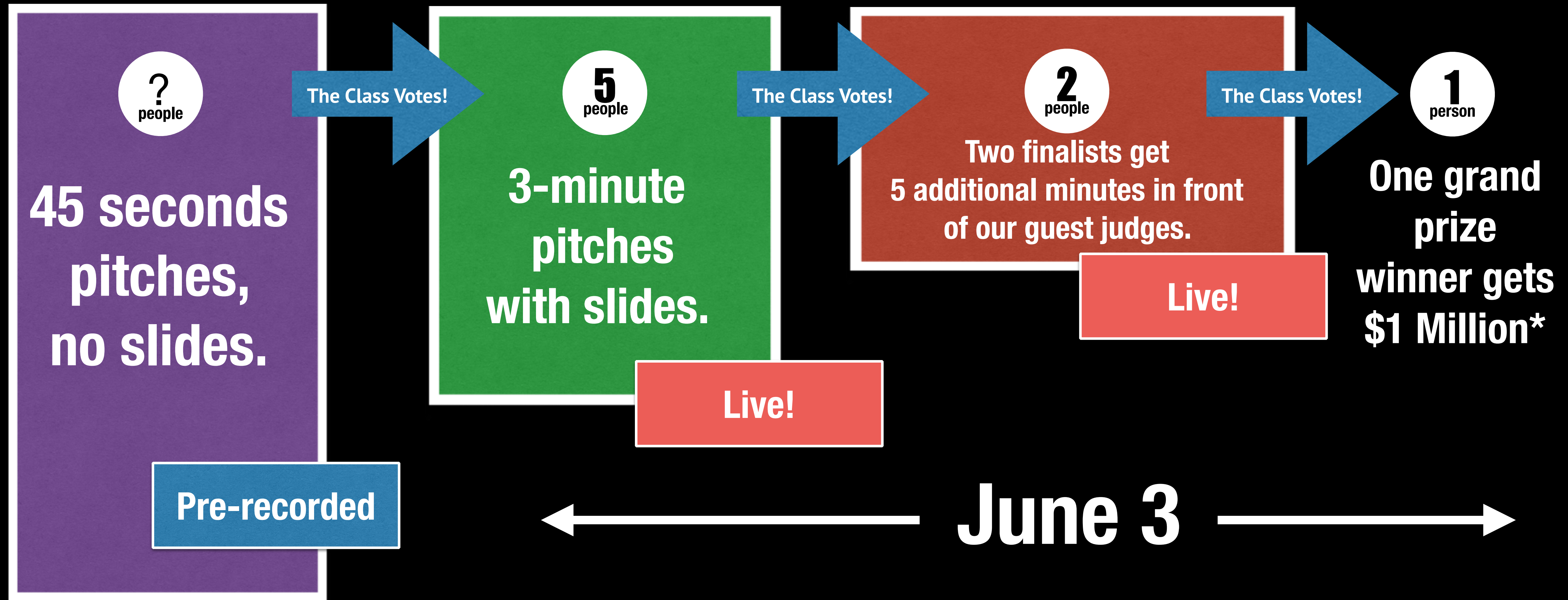
← **1-Sentence**

Grand prize: One Million Dollars!*



***Fake money.**

BUS-217 Presentation Playoff - Spring 2026



Next week!

*fake money



Pitching is purely optional.

If you want to participate, submit a 60-second video to me by midnight next Tuesday (video of you, no slides).

We will watch them all together in class next Wednesday, and vote to select 5 finalists who will each give their 3-minute, with slides, on our final night.

Winter Quarter 2024

The image shows a Zoom meeting interface. The main area displays a 3x3 grid of video thumbnails for participants. In the top-left corner, a yellow hand icon indicates that four participants have raised their hands. A notification bubble above the top row reads "Veronika Moroian +3 others raised hands". The participants in the grid are: Aadita Thareja, Veronika Moroian, Ravinder Reddy Avangapuram, Lydia He, Bret Waters, John Bartas, Romina, Andrew, Josie Gaillard, Lauren Paul, Swaroop Rath, and seandanielmurphy. On the right side, a "Participants (14)" panel lists all attendees with their names, profile pictures, and icons for mute, video, and hand-raising status. At the bottom of the participants list are buttons for "Invite", "Mute all", and "More". The top right corner of the Zoom window shows the time as 49:09.

On Saturday morning we had a good optional side session on creating a Nonprofit or Social Venture.



BUS-217 · SIDE SESSION

Have Impact

BUS-217 / Syllabus / Have Impact

THIS WEEK'S READING

One morning about 15 years ago, I had a conversation that forever changed the way I think of impact organizations. I met with Jim Koch in his cramped office on the campus of Santa Clara University, a Jesuit school located at the heart of Silicon Valley and the oldest university in California.

He told me about his vision for being able to improve on the traditional model of nonprofit organizations, using Silicon Valley thinking to create a new kind of startup — "social ventures," he called them — that could harness the power of markets while delivering social impact at scale.

Jim is one of those guys who has the kind of gravitas that makes an entire room go quiet when he speaks. After getting his MBA and Ph.D. from UCLA, he went into corporate management, then moved to the academic world where he helped build Santa Clara University's MBA program into the nationally-ranked business school it is today. He also spent time as Acting Dean of Santa Clara's renowned School of Engineering — a pretty rare feat.

As we sat in his office that morning, Jim talked about how the traditional charity model needed to be updated. Nonprofit organizations tend to live on a hamster wheel of pursuing donations to meet the most urgent problems — or just the ones that donors care about right now. Conventional nonprofits are incentivized to produce fast relief because actual systemic change takes much longer and is much more difficult.

When there is famine somewhere in the world, charities raise money to send in truckloads of food. Once people are fed, the charities and donors move on to the next humanitarian crisis without ever having addressed the underlying reasons why the famine occurred in the first place. "If what we care about is sustainability," Jim told me, "then we need a new kind of organization. We need to bring entrepreneurial thinking to the impact world by creating social ventures."

Although I had never heard the term "social entrepreneur" before meeting Jim Koch that morning, it turns out that a McKinsey consultant named Bill Drayton had been using it for several years to describe individuals creating innovative ways to address society's most pressing problems. Unlike traditional nonprofit charities, social entrepreneurs might have a for-profit aspect to their operations, using earned income to create sustainability and drive scale.

LECTURE SLIDES



Side Session Slides

PDF · Download



ZOOM RECORDING



Watch Recording

Zoom recording



VIDEO

Watch this week's lecture ↓

ADDITIONAL READING

Case Study: Be Girl

Social entrepreneurship in emerging markets

Case Study: Husk Power Systems

Bret Waters · BUS-217

that make sense to align investors and social entrepreneurs.

Summary.

The world faces many challenges today. We have a climate crisis that threatens the planet, we can't feed all eight billion people we have now (let alone the ten billion we'll have by 2050), plus we want economic equality for women and social justice for all. These are big hairy problems.

Traditional charity still has a role to play, as do governments — but social entrepreneurs can bring unique agility, fresh thinking, and innovation to bear on these problems. Social entrepreneurs all over the globe today are working at the intersection of innovative thinking, a passion for improving the world, and expertise in harnessing the power of markets. I believe they can deliver change that is powerful and sustainable.

LECTURE VIDEO



Week 11 lecture



Dan Pallotta: The way we think about charity is dead wrong



BUS-217 · SIDE SESSION

Have Impact

BUS-217 / Syllabus / Have Impact

THIS WEEK'S READING

One morning about 15 years ago, I had a conversation that forever changed the way I think of impact organizations. I met with Jim Koch in his cramped office on the campus of Santa Clara University, a Jesuit school located at the heart of Silicon Valley and the oldest university in California.

He told me about his vision for being able to improve on the traditional model of nonprofit organizations, using Silicon Valley thinking to create a new kind of startup — "social ventures," he called them — that could harness the power of markets while delivering social impact at scale.

Jim is one of those guys who has the kind of gravitas that makes an entire room go quiet when he speaks. After getting his MBA and Ph.D. from UCLA, he went into corporate management, then moved to the academic world where he helped build Santa Clara University's MBA program into the nationally-ranked business school it is today. He also spent time as Acting Dean of Santa Clara's renowned School of Engineering — a pretty rare feat.

As we sat in his office that morning, Jim talked about how the traditional charity model needed to be updated. Nonprofit organizations tend to live on a hamster wheel of pursuing donations to meet the most urgent problems — or just the ones that donors care about right now. Conventional nonprofits are incentivized to produce fast relief because actual systemic change takes much longer and is much more difficult.

When there is famine somewhere in the world, charities raise money to send in truckloads of food. Once people are fed, the charities and donors move on to the next humanitarian crisis without ever having addressed the underlying reasons why the famine occurred in the first place. "If what we care about is sustainability," Jim told me, "then we need a new kind of organization. We need to bring entrepreneurial thinking to the impact world by creating social ventures."

Although I had never heard the term "social entrepreneur" before meeting Jim Koch that morning, it turns out that a McKinsey consultant named Bill Drayton had been using it for several years to describe individuals creating innovative ways to address society's most pressing problems. Unlike traditional nonprofit charities, social entrepreneurs might have a for-profit aspect to their operations, using earned income to create sustainability and drive scale.

LECTURE SLIDES



Side Session Slides

PDF · Download



ZOOM RECORDING



Watch Recording

Zoom recording



VIDEO

Watch this week's lecture ↓

ADDITIONAL READING

Case Study: Be Girl

Social entrepreneurship in emerging markets

Case Study: Husk Power Systems

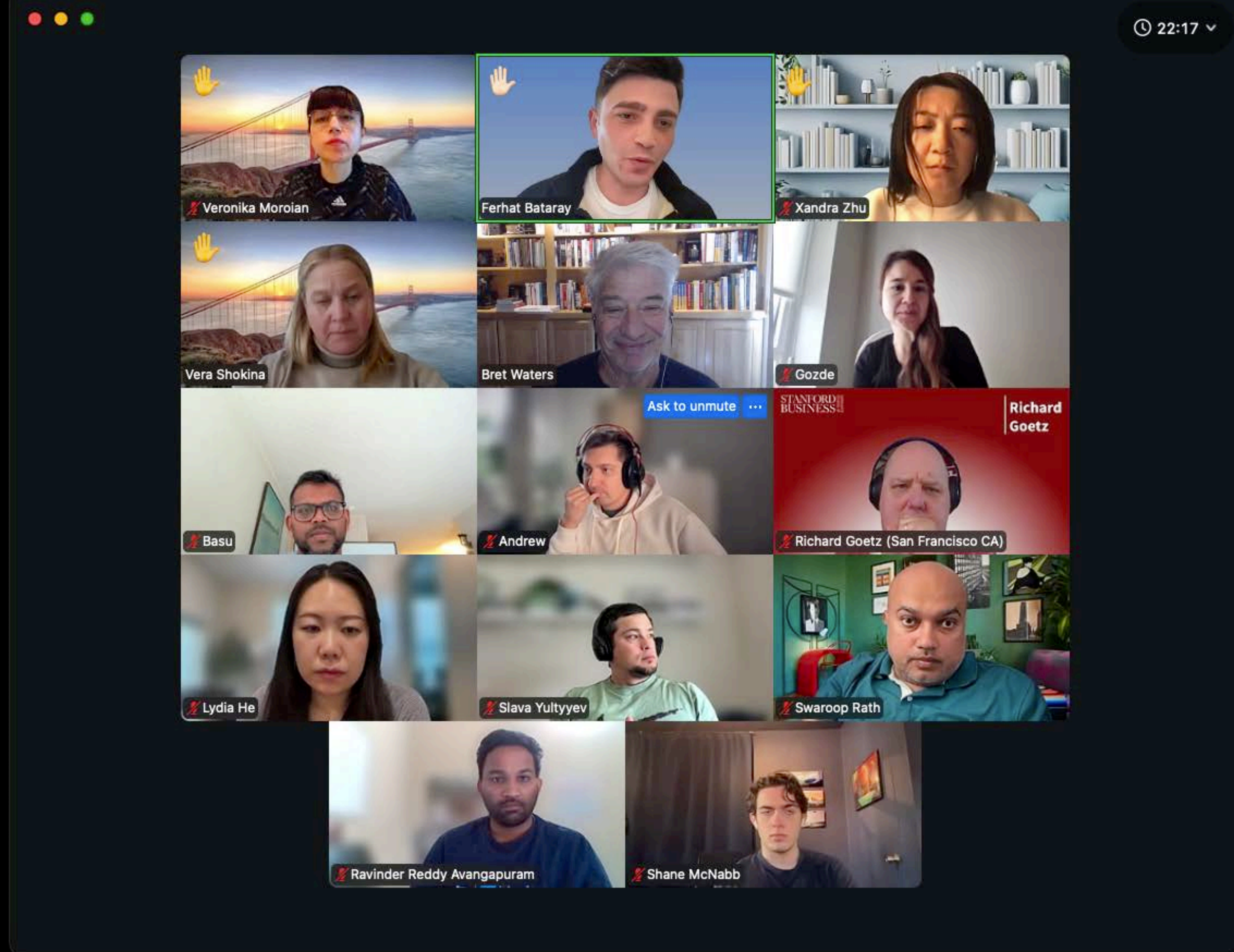
Bret Waters · BUS-217

Martin Kalberer is a graduate of BUS-217 and BUS-219, and founder of **Rejuvenated Knives: Uber for premium knife sharpening.**

He is offering 25% off through the end of the month with coupon code “BretsClass”.



RejuvenatedKnives.com



On Sunday morning we had a good optional side session on creating an economic model spreadsheet for your startup.

BUS-217 · WEEK 5

Engineer an Economic Model

BUS-217 / Syllabus / Week 5

THIS WEEK'S READING

"Your job [with an economic model] is to create a numerical framework that complements and reinforces the vision you've painted with words."

— GUY KAWASAKI

Startup success isn't about making pretty spreadsheets, but your venture will probably sink or swim depending on whether the numbers work, so we'd better start the process of creating an economic model for your venture long before operations actually begin.

In this chapter, I will walk you through the process of creating an economic model for your startup. Note that I said *economic model*, not financial statements. Financial statements are backward-looking documents detailing what happened last year for reporting and tax purposes. Right now, we are creating a forward-looking model of how your venture's economics might look. We don't care

LECTURE SLIDES



Week 5 Slides

PDF · Download



MASTER SPREADSHEET



TacoBox Economic Model

Google Sheets · Make a copy



GOING DEEPER



AI for Week 5

Building your economic model



A class challenge from Lydia!

The **10 CUSTOMER INTERVIEWS CHALLENGE**



GOAL: Talk to **10** potential customers in your target market before the end of Week 8.

WHAT COUNTS:



10-30 min conversation
(Zoom, phone, or in person)



With **real** customers



Focus on **learning**, not pitching



Can be **imperfect**

WHAT DOES NOT COUNT:



Talking with your **friends/co-workers** (unless they are your target customers)



Surveys

Even **1-2** conversations is already a win. This is about building the **habit**, not being perfect.



I've created a Slack channel **#10-conversations-challenge**.
Joining this channel means you accepted this challenge.

Let's learn, build, and grow together! ❤️

Startup Workshop for Teens — August 2026

Summary

A 3-day summer workshop for teens (ages 13–17), conducted in the heart of Silicon Valley. Designed to be fun and interactive, the workshop sends participants home with a deeper understanding of the methodology for building a successful startup. But underlying goal is actually to give them something much more valuable than that: an introduction to entrepreneurial thinking and an innovation mindset – the key skills that today's teens will need to navigate and shape the future.

Day 1 — Mindset & Opportunity. The opening day is about finding a problem worth solving and a team that cares about it. Participants arrive as individuals, not teams. After a morning framing of what a founder actually is, every participant writes down ten problems they've noticed in their own life, and those problems get posted on a gallery wall. Participants physically move to the problem cluster that pulls at them — and teams of five form naturally from those clusters. The afternoon is the first real customer-discovery round: teams draft an interview script, go out into the venue and surrounding area, and return with five interviews' worth of sticky-note quotes on their team wall. For homework that night, each participant books two more interviews with adults in their real life — parents' friends, neighbors, older siblings — by phone or video before tomorrow morning.

Day 2 — Value Prop, Prototype, Iterate. Day 2 is the builder's day, and it rewards teams that listen over teams that cling to ideas. After debriefing what participants heard on their overnight calls, teams write a first-draft value proposition and immediately swap it with another team for three-minute critique. Then the build sprint begins: one hour to make a paper or low-fidelity prototype that tests their riskiest assumption, followed by a structured user-test round with a partner team, followed by a forty-five-minute revision pass, followed by a second build sprint at higher fidelity — clickable mockup, cardboard model, or rehearsed service walkthrough. The



CustDev Interviews for Teen Workshop

1. Karen (mother of a teenager).
2. Aadita (teenager).
3. Namrata (mother of a teenager).
4. Sinem (Innovation expert at Google).
5. Rob (has conducted previous workshops for teens).
6. Tanya (mother of 2 teenagers).
7. Samuel (founder who has a teenager).
8. Christine (teenager).
9. Marie (mother of 2 teenagers).
10. Bjorn (father of a teenager)

AUGUST 10, 11, 12, 2026 · SILICON VALLEY

Startup Workshop for Teens

A 3-day summer workshop for teens ages 13–18, in the heart of Silicon Valley. Find a real problem. Build a real team. Pitch on Demo Day.

Apply now →

See the program

50
teen founders

3
intense days

1
real Demo Day



REAL TEAMS
Real innovators.

DEMO DAY
You'll pitch.

I want to create a Social Venture startup. Is this workshop appropriate for that? ▾

Apply for one of 50 spots.

August 10, 11, 12, 2026 · Silicon Valley.

- 3 full days · 9 AM – 3 PM
- Hearty lunch + snacks included
- Real Demo Day with guest judges
- 2 workshop leaders + 5 parent volunteers
- \$750 for the three-day program, if accepted.

Apply to Startup Workshop for Teens 2026

August 10, 11, 12, 2026 · Silicon Valley

\$750 for the three-day program, if accepted.

If accepted, we'll send a link to complete registration and payment.

PARENT / GUARDIAN

PARENT / GUARDIAN NAME *

PARENT EMAIL *

PARENT PHONE *

PARTICIPANT

Please have the participant fill out this section in his/her own words. Do NOT use AI to write it! 😊

PARTICIPANT NAME *

PARTICIPANT EMAIL *

PARTICIPANT AGE (13–18) *

A SHORT ESSAY: WHY DO YOU WANT TO ATTEND? *

Your assignments this week:



If you want to participate in the pitch contest, send me a 1-minute pitch, via video, by midnight the night before our next class.

No slides, no graphics. Just you, talking.

In the **#social** channel, give us a book recommendation. It could be related to startups, or not.

We have two weeks left, and I want to make sure you are getting what you want from this course.

Let me know if not.

After our final class I'm off to Europe, so let me know if there's anything I can help with between now and then.

0:45

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