

SHOW NOTES — JOHN MULLINS, PHD

"FOUNDING CEO LEADERSHIP CHALLENGES FOR 5 CUSTOMER-FUNDED BUSINESS MODELS"

Associate Professor of Management Practice in Marketing and Entrepreneurship at the London Business School, Former Founding CEO



This interview is based upon John's must read book, *The Customer-Funded Business*

BIOGRAPHY: An award-winning teacher and scholar and one of the world's foremost thought leaders in entrepreneurship, John brings to his teaching and research 20 years of executive experience in high-growth retailing firms, including two ventures he founded and one he took public. Since becoming an entrepreneurship professor in 1992, John has published five books, dozens of cases and more than 50 articles in a variety of outlets, including Harvard Business Review, the MIT Sloan Management Review, and The Wall Street Journal. John's first trade book, "The New Business Road Test: What Entrepreneurs and Executives Should Do Before Launching a Lean Start-Up," has become the definitive work on the assessment and shaping of entrepreneurial opportunities and is widely used by investors and entrepreneurs and in university courses worldwide. His second book, the critically acclaimed "Getting to Plan B: Breaking Through to a Better Business Model," co-authored with Randy Komisar, a partner at the esteemed venture capital firm Kleiner Perkins Caufield & Byers, was named to "Best Books of 2009" lists by BusinessWeek and INC Magazine. John's newest book, 'The Customer-Funded Business: Start, Finance or Grow Your Business with Your Customers' Cash,' was named one of five "not-to-be-missed books" for 2014 by Fortune magazine. It challenges the widely held assumption that among an entrepreneur's first and most important tasks is that of raising investment capital.

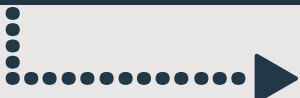


JOHN MULLINS'S INTERVIEW WITH TODD UTERSTAEDT ON "FROM FOUNDER TO CEO"

KEY THOUGHTS:

- ▶ "The angel or the venture capitalist is not necessarily the first port of call for the entrepreneur. The VCs and angel community has sort of stolen the entrepreneurial limelight in the last couple of generations."
- ▶ "The vast majority of fast growing companies never take any venture capital."
- ▶ "This notion that the first thing we have to do once we come up with an idea for a new venture...is go raise capital...I think it's fundamentally wrong."
- ▶ "It's really hard to raise money. And, it's pretty much a full-time job."





"It's a much better approach to say, well let me not worry so much about raising investment capital...and by the way if you are trying to raise investment capital too early you're going to raise it on very onerous terms..."

Dr. Mullins outlines 5 Customer-Funded Business Models in his book and this interview. We also discussed the leadership challenges that Founding CEOs must confront with each model.

1. MATCHMAKERS MODELS:



Definition: "The basic idea...is...the matchmaker just brings together buyers and sellers but never actually owns what is bought and sold."

Startup CEO leadership challenges for this model:

- A. "You need willing suppliers...and willing sellers that are going to buy..."
- B. "The tricky part...is you've got to build both the supplier and the buyer side...of the business in sort of parallel terms..."
- C. "One of the real leadership challenges...is to get the suppliers to come on board with your platform, but at the same time get them to understand they're going to have to be patient because its going to take time to build both supplier and buyer critical mass..."

2. PAY-IN-ADVANCE MODELS:



Definition: "It's a pretty simple idea...you ask your customer to pay you for what you are going to sell them, before you give them the goods."

Startup CEO leadership challenges for this model:

- A. "Trust is key."

3. SUBSCRIPTION MODELS:



Definition: "...you pay at least in part at the beginning...and then over time you are going to deliver whatever you promised to deliver to them...attractive working capital..."

Startup CEO leadership challenges for this model:

- A. "Taken too far in some circumstances."
- B. "...you have to have something that is either going to be used up really fast...or that is perishable in some ways..."
- C. "...it's essentially...a math problem...it costs you x to get a customer and then the question is, when do you get back from the customer enough contribution margin...in order to pay back that customer acquisition cost..."
- D. "...think about the pay back period..."



4. SCARCITY MODELS:

Definition: "...limiting the time for which that merchandise is available. They're also being very limited in terms of the price..."

Startup CEO leadership challenges for this model:

- A. "...the problem is...anybody can copy this..."
- B. "It's a one-time event...it's a very different way of thinking about the business."
- C. "...limited supply..."
- D. "...most of them don't make money..."

5. SERVICE-TO-PRODUCT MODELS:

Definition: "...many service businesses...what do I have that I can just bottle...ship without hand holding...it's a fabulous way to transform a service company...customers use it mostly by themselves..."

Startup CEO leadership challenges for this model:

- A. "One of them is the customer service..."
- B. "...the team you need to build a service business is a different team than you need to build a product business..."

HIS BOOKS:



The Customer-Funded Business: Start, Finance, or Grow Your Company with Your Customers' Cash

— by —

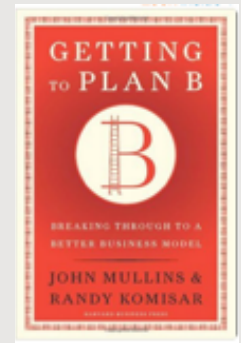
John Mullins



The New Business Road Test: What entrepreneurs and executives should do before launching a lean startup (4th Edition) (Financial Times Series)

— by —

John Mullins



Getting to Plan B: Breaking Through to a Better Business Model

— by —

John Mullins & Randy Komisar