



Disrupting the Venture Landscape

*Why the Startup Studio Model is Where
Investors Find Capital Efficiency*



About This Report

This report was created by [GSSN](#) (Global Startup Studio Network). GSSN and its members share a collective focus: creating opportunities for startups around the world to access the human and financial capital they need to build powerful businesses and make a meaningful impact, wherever they call home.

About GSSN

GSSN is a highly curated community of the world's venture studios, startup studios, company builders, and venture builders. GSSN brings together the most relevant information and peer community so that studio leaders can build the best operating structure for your startup studio by providing curated connections to talent and financial capital, giving studio leaders more time to create their next successful venture.

Note to the Reader

Startup studios (referenced as “studios” throughout this paper) are interchangeably known around the globe as venture studios, venture builders, or company builders. Simply put, studios are company creators. They solve real problems by matching great business ideas with the best entrepreneurial talent to execute those ideas. Studios then test these ideas and back them with funding and resources in order to launch and grow powerful, scalable startups. To learn more about the defining structures of studios, check out our [first white paper](#).

© GSSN, 2020, Proudly headquartered in Denver, Colorado, USA.

AUTHOR

Nick Zasowski

GSSN Director

Nick leads the studio community for GSSN, a highly curated network of the world's most innovative startup studios, venture studios, company builders and venture builders. Prior to his time with GSSN, Nick led global partnerships, curating the accelerator network for parent organization GAN. Being involved with multiple stakeholders across startup ecosystems, Nick loves connecting the world's leading innovators so that all can reach their next level of potential.

CONTRIBUTORS

Sarah Anderson

Managing Director, [Cintrifuse](#)

Douglas Beyer

Director of Investments, Radianx Capital

John Carbrey

CEO and Founder, [FutureSight](#)

Alper Celen

Founding Partner, [Enhance Ventures](#)

EDITORS

Anna Armstrong

GAN & GSSN Brand & Content Manager

Georgina Guidotti

GAN Accelerator Coordinator

Dani Larson

GAN COO

Patrick Riley

GAN CEO, GSSN Senior Advisor

Danya Strait

GAN & GSSN Events & Social Media Manager

About

Table of Contents

3	<u>Foreword</u>
4	<u>Introduction</u>
5	<u>Unprecedented Growth for Studio Stakeholders</u>
9	<u>Investing in Innovative Company Building</u>
10	<u>The Advantages of the Studio Structure</u>
13	<u>Investor Landscape</u>
14	<u>Conclusion</u>
16	<u>Case Study: eFounders</u>
17	<u>Case Study: High Alpha</u>
19	<u>Case Study: Science, Inc.</u>
20	<u>Appendix</u>
22	<u>Endnotes</u>

Contents

Foreword: Going Beyond Ideas and Team

Do you bet on the horse or the jockey? We're here to tell you that the answer is neither. While the horse's athleticism will be hailed as the fastest and the jockey's skill and dedication will be lauded for crossing the finish line first, the true bet lies in the trainer who is bringing the horse and the jockey together for the perfect fit.

It would seem that there is a correlation between horse betting and startup studios. Some may look for the best jockey — or, the ideal founding team — the athlete that will lead a horse to victory. But this would be a largely unsuccessful betting strategy as the win percentage for top jockeys is around 20%. Others who are focused on finding the “perfect horse” — or, the best idea or biggest problem — to win the race may lose sight of all the other factors. In horse racing, the odds of the favorite horse winning is 33% of total races. Coincidence or not, it's equally striking that startup ideas only account for 28% of a startup's success.¹

But, if you bet on the trainer who is the expert in bringing together the right jockey for the right horse, then your odds skyrocket. One of the most popular trainers in the world, Bob Baffert, has a career record of finishing in the money in 53% of his races. Seems like the wise choice to bet on the trainer, right?

Investors today face much of the same dilemma while investing in startups. As an industry, do we bet on the idea or the team? As investors get more sophisticated and innovative with their portfolio, some are finding that the answer is “none of the above.” Instead, investors are turning to studios — a proven effective and efficient method to build startups.



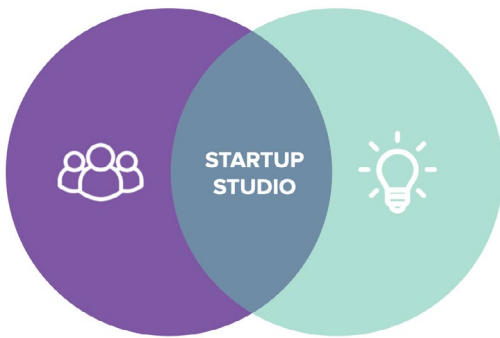
Nick Zasowski
GSSN Director

“Startup ideas only account for 28% of a startup's success.”

Introduction

BREAKING DOWN BARRIERS

In a world where “startup studio,” “venture studio,” “company builder,” and “venture builder” are all terms used interchangeably, the conversation with investors about this innovative form of company building begins complicated and only digresses from there. The goal of this white paper is to help educate both the investor and startup communities on the growing startup studio model and the advantages it presents to its stakeholders.



Studios exist in the space where great teams comprised of world-class talent and vetted ideas collide.

STUDIOS HAVE ARRIVED

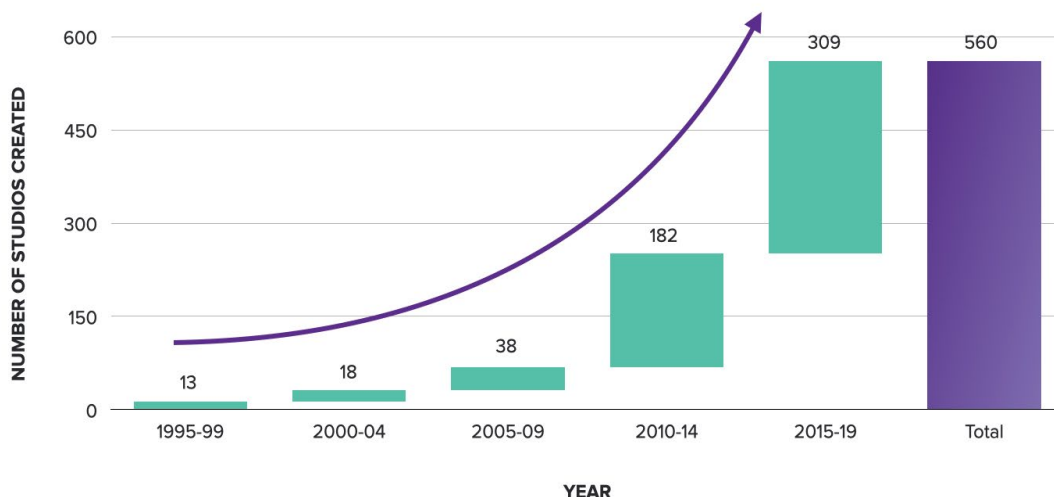
Studios are established and growing at an exponential rate as an asset class. Just this year, [Enhance Ventures](#) reported that there are roughly 560 studios across the globe, representing more than 625% growth over the last seven years.²

This white paper dives into the reasons studios have taken hold of the venture world and the makeup of the studios leading the way.

Studios are creating the world’s next generation of industry-shaping companies. With great innovation comes big change. This ultimately causes disruption to systems that have been in place for years. Studios are causing this precise disruption to the traditional ways of building companies and investing in them. This white paper will help educate those unfamiliar with the studio model and demonstrate how studios look different from more familiar asset classes.

Leaders in venture are now “placing bets” on the all-star studio teams that unite the best problem-solvers with the toughest problems. It’s not all that different from the gambler who bets on the trainer, rather than the horse or the jockey, to be the factor that wins races. These investors have realized that studios as an asset class are elevating the world of venture. In the following section we will explore how these investments have resulted in incredible gains for the investors putting their capital into the studio asset class.

GLOBAL STUDIO PRESENCE IS EXPONENTIALLY INCREASING



Data Source: Enhance Ventures White Paper

Unprecedented Growth for Studio Stakeholders

STUDIOS THEMSELVES

Studios have become a more popular structure in recent years across the startup world, but they aren't necessarily new. Studios have been around since 1996 with the founding of Idealab³. This started a movement that has led to hundreds of studio successes over the past three decades.

1996-1998



Wave 1: 2007-2010



Wave 2: 2011-2012



Wave 3: 2013-2019



Modeling After Idealab's Success

The success of Idealab speaks for itself. Over the past couple of decades, the studio has created more than **100 companies**⁴ and the results have been staggering. Across the portfolio they've experienced⁵—



*A unicorn is a privately held startup company with a value of over \$1 billion.

According to CB Insights, 1,100 tech companies⁶ in the venture capital funnel that raised a seed round between 2008-2010 experienced the following through a full fundraising cycle:

- 33% success rate for their portfolio companies.
- 28% of seed-funded companies exited through an IPO, merger, or acquisition.
- 1% of these companies became unicorns.

Idealab was just the beginning. As the years progress, new studios have followed Idealab's model and built similarly successful portfolios.

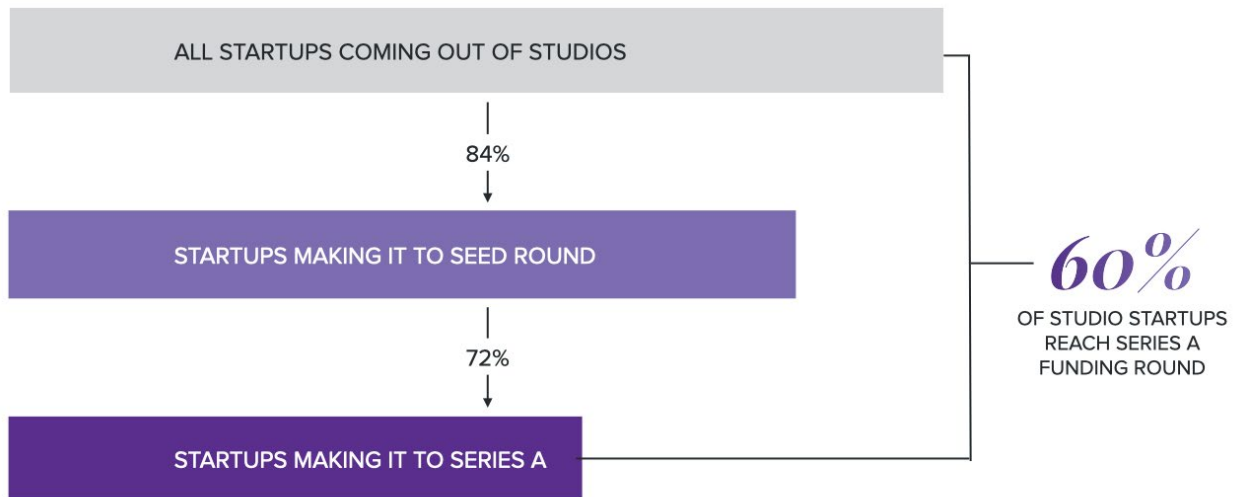
THE STARTUPS CREATED

The startups coming out of studios have a unique composition. These companies solve the world’s biggest problems with the world’s best entrepreneurs. Because of this, the success of these startups is unprecedented.

84% of startups coming out of studios go on to raise a seed round. Of those startups that make it to the seed round, 72% of those ventures make it from seed to Series A, compared to traditional startups in which only 42% of ventures that get to seed make it to Series A⁷. Ultimately, 60% of all companies created out of studios make it to Series A⁸.

It is only a matter of time before investors see past a cap table that does not meet “standard” venture expectations and understand the innovative approach studios take to company building. The studio approach is achieving better results (30% better to be exact) as they build repeatable processes, focus on their specific expertise, have skin in the game from day one as an institutional co-founder, and provide financial resources.

30% BETTER RESULTS WITH THE STUDIO APPROACH COMPARED TO TRADITIONAL STARTUPS



Examples of fast-growing startups that have come from studios:



THE BENEFITS TO CORPORATIONS

“What I like about the studio environment is that there’s often the opportunity for startups to build amongst others in the same life stage. There’s synergy in that and a great opportunity to grow with expert, focused resources before potentially bringing them back into the larger corporate entity.”

– Betsy Bluestone, P&G Ventures

In the realm of corporate innovation, those keen on the risk of rapid and devastating disruption are now shifting their innovation strategies to include partnering with studios. Innovation teams are realizing that, in addition to investing in well-aligned companies, they need to build when they are ahead of the market. This ensures they can move fast and establish new streams of revenue to keep their company relevant in the next five to 10 years and beyond. One concept introduced in GAN’s [Built for Speed white paper](#) is rapid, low-cost learning (RLCL), which allows innovators to build their roadmap into new markets one small step — or one “pivot” — at a time⁹. By focusing on RLCL and allowing cheap failure to correct their course, corporate innovators will discover markets, release products that fit that market’s needs, and begin the process of scaling far sooner and more economically than competitors. One way that corporations are doing this is by utilizing the studio model.

Leading corporate innovation teams have realized that, by partnering with studios, they have an opportunity to stay ahead of the startup marketplace. While corporations were formerly frustrated by trying to source the right startup at the right time, studios allow corporate innovation

teams to create their own paths forward. Typically, a corporate innovation team will conduct extensive research, and may ultimately come up empty handed in their search for the “needle in a haystack” to address a specific problem. A studio partnership provides a pathway for the corporation to co-develop a solution for a specific problem in a specific market leveraging their expertise.

There are two ways corporations can build out a studio: the corporation can create its own studio internally, or it can partner with a venture studio to outsource some of the work. Both options ultimately develop a streamlined process for companies to build quickly and cost effectively. Now backed with corporate innovation resources, studios can start building dozens of ventures beyond the typical average of two to four startups.

Corporations that are leading innovation internally and externally through using the studio model include:



Studios that work with corporate partners include:



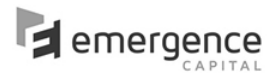
“We’re investing in studios because of their work with corporate innovation: studios’ bench of talent are able to quickly generate new solutions for our corporate partners when there may not be a market-ready technology. Studios make strong innovation partners due to their proven iteration process and speed of development.”

– Sarah Anderson, Cintrifuse

THE ADVANTAGES FOR INVESTORS

The final domino is falling as more and more investors jump onto the studio bandwagon. As the data behind studio success becomes more public, investors are acknowledging that studios are a new asset class on which to focus. Judging by the all-star lineup of firms, examples below, currently bought into the studio model, the assumption can be made that there is significant confidence in the model.

Notable investors that are actively investing in the studio model include:



BEZOS EXPEDITIONS



Investing in Innovative Company Building

TRADITIONAL COMPANY INVESTING

The common thread throughout most early-stage investment tactics has been for investors to invest significant funds across multiple companies in hopes of striking gold on a few wins to cover the portfolio. When looking at these models (VC, accelerator, incubator) from a bird’s eye view, they all take a similar approach: Take as many swings as possible in hopes of getting those few home runs.



INNOVATIVE COMPANY BUILDING

Studios turn the traditional investing approach on its head. As an institutionalized co-founder, the studio model accomplishes successful returns through leveraging its wide range of resources. Putting 100% of their focus towards identifying just a couple of problems to address each year, matching those problems with the right talent, and resourcing those companies (human and financial) at the earliest stage allows studios to create a factory-like environment to build companies and rapidly scale their growth.

“Studios are an outperforming asset class because they are able to buy ownership in a capital efficient way and are able to control the growth and scale through a dedicated bench of talent. Due to their high ownership and founding roles, we also believe that studios are less likely to be pushed down or washed out in the waterfall.”

- Sarah Anderson, Cintrifuse

COMPARING INVESTOR RETURNS

What the Data Say: GSSN surveyed 258 startups created by studios. expertise, have skin in the game as a co-founder, and provide financial resources.

“Disruptive investment strategies and models are hard to come by and it is even more rare to be an early investor in an asset class or strategy before they’re overcrowded; if venture capital is an important part of your existing portfolio then venture studios deserve serious consideration.”

- Douglas Beyer, Radianx Capital

	Traditional Startup	Startups Created by Studios
Average Internal Rate of Return (IRR)	21.3% <small>(the best at 30%)¹⁰</small>	53%
Total Value to Paid In (TVPI) ¹¹	1.57¹²	5.8
Time from Zero to Series A (months)	56	25.2
Time from Zero to Seed (months)	36	10.7
Time from Seed to Series A (months)	20	14.5

The Advantages of the Studio Structure

Studios fight an uphill battle as their ownership model is slightly different from what investors are used to seeing. However, studios have proven to be more successful due to these common attributes of the model.

VALUABLE RESOURCES

Studios provide countless foundational resources for their startups so that the entrepreneurs can focus on building great products, generating new revenue, and taking care of their existing clients.

Repeatable Processes to Drive Success

- Only creating companies that have big enough problems to solve.
- Setting stage gates in place to follow strict processes during the ideation, validation, company creation, fundraising, and scaling stages of the company’s life cycle.

Institutional Co-Founding Team

- The studio has skin in the game as they take founding equity into the venture. Studios do everything from recruiting the founding team to sharing the burden with the CEO in the earliest rounds of fundraising.
- Studios are founded by entrepreneurial leaders that know how to build companies. Entrepreneurs that are familiar with the startup ecosystem and life cycle are key to a studio’s success so that they can support their portfolio companies and lead them in the right direction as they build their venture. For example, consider these notable studio founders and investors:

Studio Founder	Company	Studio Founded
Garret Camp	Uber (Co-Founder)	Expa
Mike Jones	Myspace (CEO)	Science
Thibaud Elziere	Fotolia (Founder)	eFounders
Marissa Mayer	Yahoo (CEO)	LumiLabs
Scott Dorsey	ExactTarget (Co-Founder)	High Alpha

- Resources studios provide include, but are not limited to, validation, recruiting, design, marketing/communications, product, accounting, legal, and fundraising.
- Studios surround themselves with a network of experts to both have a pipeline of future founders and build their startups all the faster.
- Entrepreneurs that co-found with a studio get similar equity ownership that they would have if there were three co-founders and had raised a pre-seed round. According to a survey conducted by GSSN, upon the day a company is founded, the average studio takes roughly 34% equity (with the high around 80% and the low at 15%), a single founder gets 50% equity, and the remaining equity is used for the employee stock option pool.

“The bench of talent at a studio is critical. And access to talent is critical. It is also important for LPs to understand what ‘type’ of studio they are interested in and why. Strategic, financial, etc”

- Sarah Anderson, Cintrifuse

Financial Resources

- Studios provide the starting capital to pay for operational expenses as the startup gets going.
- Follow-on funding continually supports the startups they are building.
- The startups now have access to a new network of investors through the studio. The startup otherwise would never have access to leverage these additional financial resources.

Investor	Investment Made
Peter Thiel	Atomic \$20M fund
Richard Branson	Expa \$150M fund
Jeff Bezos	Pioneer Square Labs \$12.5M fund
Marc Andreessen	Atomic \$20M fund
Chris Sacca	Human Ventures \$50M fund

Specific Studio Strengths

- 1** *Connected in Local Communities*
 Studios are an integral piece of the entrepreneurial community. The best studios are well connected in their geography, making them the ecosystem’s epicenter for entrepreneurs, corporations, and investors.
- 2** *Higher Multipliers*
 It’s expensive to create companies, but the best studios are able to repeat what was done in the past so that investors can get a high ownership stake for a modest investment.
- 3** *Efficient Processes*
 Top studios have objective stage gates for building new ventures, and repeatable processes created by each studio help them build successful companies at scale.
- 4** *Network*
 The founding teams for studios have a deep network of investors and entrepreneurs that they can leverage as they scale their companies and need some early connections to get off of the ground. This helps lay a solid foundation for the startup in its early days.
- 5** *Unique Advantage*
 Each studio tends to have a distinct advantage that gives it a leg up on its competition. Investor teams bring benefits to the studio to help the studio’s startups succeed utilizing their subject matter expertise.
- 6** *Great Teams*
 The first five employees of the organization set the direction and culture for a company’s lifespan. Studios are in the unique position to help build what the initial team looks like. Just as most studios build out their own powerhouse teams, they then leverage their networks to make sure they are bringing in the world’s best innovators to run their portfolio companies.

ACCELERATED SPEED TO FUNDING

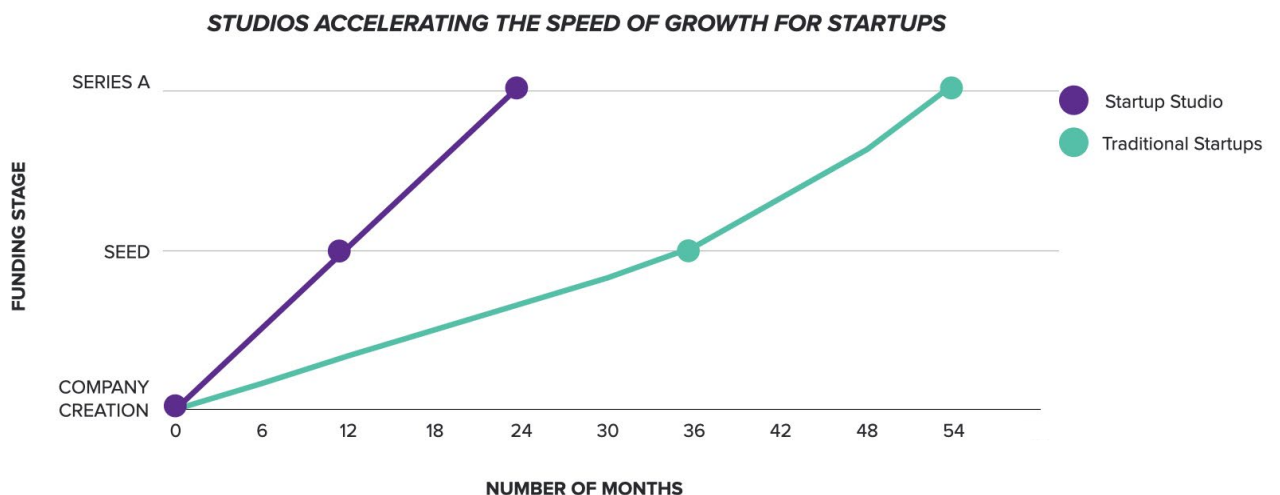
Timing is everything, and the amount of time it takes startups to raise money means everything. If a company can scale faster at the onset of the business, then the pace of growth picks up for the startup as the shared resources of a studio allow the founder to focus more attention on building their business. The most notable difference is that studios reach seed round 25.3 months faster than the traditional venture investment.

Startups Coming Out of Studios

On average, studio startups go from day zero to seed round in 10.7 months, and seed round to series A in 14.5 months (see chart below).

Traditional Startups

The average startup is roughly three years old by the time it raises a seed round¹³. It takes an average 20 months (per round) to raise the first five rounds, and 25 months for each consecutive round.



Continuing to Compare the Two Models

It takes a traditional startup more than twice as long — 56 months — to get to their Series A funding in comparison to a startup out of a studio, which attains the same goal in 25 months' time. Additionally, the industry average for a traditional investment to exit is about 6.6 years,¹⁴ while a recent survey of startups created in studios showed that the average age of the company at exit was 3.85 years.

SOLVING THE WORLD'S NEEDS

Studios have the unique opportunity to solve “wicked” problems in the world¹⁵. This unique opportunity comes from the flexibility that building using the studio model allows. Whether working with corporations or solving their own internal challenges, studios have the ability to see a problem the world is facing and immediately create a company to solve for that gap. Studios learn about these wicked problems from four different sources:

1

Entrepreneurs come to studios with an idea — to partner with an institutional co-founder. *E.g. Tiny Organics out of Human Ventures and Dollar Shave Club out of Science Inc.*

2

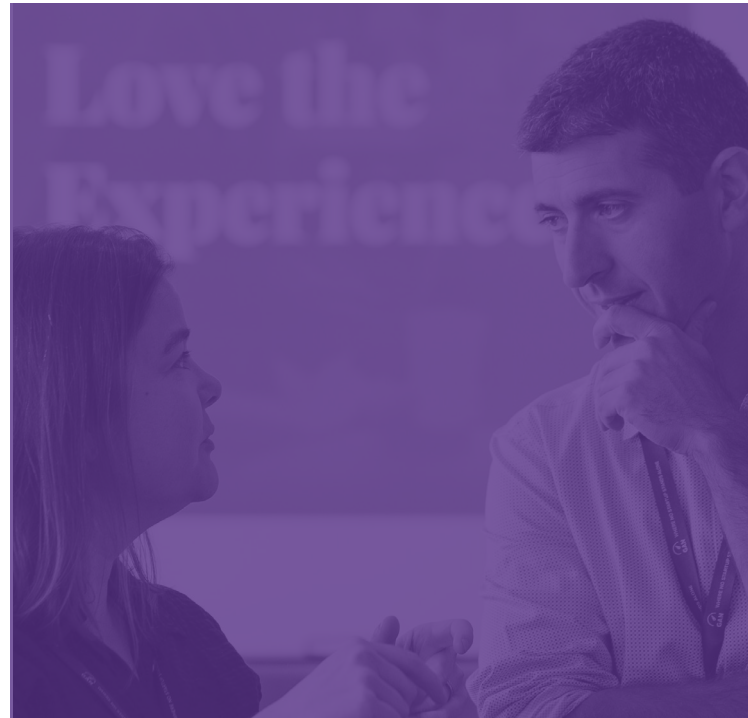
Corporations identify a specific need in a market and ask for the expertise of a studio to utilize the unfair advantage they have in a certain focus area. *E.g. TeamSense out of PSL and Fortive or Roku out of Netflix.*

3

Investors see gaps and opportunities in the world and studios can go create something that solves for their next investment. *E.g. Pure Storage and Snowflake out of Sutter Hill Ventures.*

4

Internal studio teams focus on narrowing down which company makes the most sense to address the world's current and future needs. *E.g. Joi Gifts out of Enhance Ventures, IPS out of Builders, and Aflore out of Polymath Ventures.*



Science Inc., the Studio That Built Dollar Shave Club

Dollar Shave Club was one of the first big startup wins for studios that caught the world's attention. After its founding in 2011, it only took until 2016 for Dollar Shave Club to be acquired by Unilever for \$1 billion. A major reason why Dollar Shave Club saw the success it did was due to the platform that Science Inc. provides its startups. Science Inc. is laser focused on finding ways to solve big problems. This is where Science Inc. and Dollar Shave Club CEO Michael Dubin came together to solve for both the cost of and buying process for razor blades. Next, Science Inc. surrounded Dollar Shave Club with a team of experts who could help them penetrate a market where 70% of the industry¹⁶ was owned by one player. Finally, Science Inc. provided the necessary resources and financing, which resulted in an astounding two-year growth period from 2012 to 2014 in which Dollar Shave Club saw its revenues grow from \$4M to \$65M¹⁷.



SCIENCE



DOLLAR SHAVE CLUB

Investor Landscape

“To me, venture studios seem like an obvious investment. Investors constantly need to be looking for the next return generators for their portfolios. That being said, investors really need to dig in and understand the nuances and complexities of a venture studio before investing. At the root of a venture studio there are people and the entrepreneurial spirit – studios are platforms to help build and create companies.”

– Douglas Beyer, Radianx Capital

INVESTORS GETTING INVOLVED

As the story of great returns reaches the public, investors are more and more intrigued about the opportunities presented by the asset class.

Achieving Low Cost for High Ownership

- Investors receive an entry point to breakout companies at the earliest valuations, providing unique advantages. On top of that, investors get the opportunity to set the initial inside price for the companies. Compared to traditional investment, this is almost a disproportionate amount of equity in comparison to the amount of capital being invested in these early stages of the ventures (see Appendix A).
- As valuations continue to grow at an exponential rate, with this new cost basis, investors can get in for less and a smaller vehicle. This is a significant advantage to not have to wait for seed or Series A, but to own two or three times as much for the same amount of money or less.

- As Douglas Beyer says, “Being able to provide strong returns even with average venture exit values is important. If a venture studio has a \$100M fund and they own 50% of a startup that exits for \$200M, they are still able to return the entire fund. The downside risk is mitigated by the level of ownership; and the upside is exponentially increased also by the level of ownership. If they have a hit coming out of a studio, it can return 5-6x the fund.”

Low Cost for High Ownership: Sutter Hill Ventures and Snowflake¹⁸

“Sutter Hill Ventures leveraged its capital, experience, resources, and networks to help Snowflake develop into a unicorn.”¹⁹

Sutter Hill is one of many firms turning to the studio structure to build their next venture like Snowflake. Like all studios, Sutter Hill was the earliest investor in Snowflake and got in at a price of \$0.17 per share. At the time of IPO, Sutter Hill owned 20.3% of the shares, resulting in roughly \$12.0 billion+ after having a total investment into Snowflake of less than \$200 million. This share price in comparison to other investors shows why the low cost for high ownership can make such a big difference. Redpoint was one of the earliest external investors and came in at \$0.97 per share, resulting in a 9% stake of the exit. Sequoia came in at an even later round, investing more at \$7.46 per share and receiving an 8.6% share of the exit. Finally, according to the studio model, Sutter Hill went out and found the perfect CEO for the job — Frank Sloatman. His share of the company ended at a 5.9% stake, which will result in roughly \$3.9 billion. Alongside Frank, he hired his CFO, Mike Scarpelli, who will end with a 1.9% stake in Snowflake, resulting in roughly \$1.2 billion.

Conclusion

Studios deliver immense value at an incredibly fast rate because of their ability to attract investors and talent around solving the world's biggest problems. Studios address those problems by building companies and backing them as institutional co-founders, building repeatable processes, and backing these companies with the necessary funds so that they are ready to scale.

As the proliferation of the model continues and more success stories and data points are published, there is a growing interest among its key stakeholders (corporations, entrepreneurs, investors, startups, and studios). As the studio capital structure innovates and disrupts traditional investing, it is important to remember what makes studios a capital efficient model.

Studios build repeatable processes, focus on a specific expertise, have skin in the game as a co-founder, and provide financial resources. All of this allows the CEO of the startup to build a world-class product, focus on generating revenue, and take care of customers. Once a studio is able to achieve these milestones, it can build businesses at scale. This is what will draw investors and entrepreneurs into the ever-growing studio asset class.





Case Studies



Founded in 2011, [eFounders](#) has a portfolio of 27 companies with four exits. Based out of Paris and Brussels, eFounders has seen their portfolio raise over \$400M, accumulating a valuation over \$1.5 billion. All of this has been done with only \$11.4 million in funding to date for the studio.

But what is it exactly that makes eFounders so great?

Scale. eFounders [shared insights](#)²⁰ on scaling the startup studio model. As serial entrepreneurs, founders Thibaud Elziere and Quentin Nickmans are the perfect leaders to go from scaling one company at a time to designing an entire system supporting dozens of startups at a time.

To do this, there are three key components eFounders focuses on to build repeatable processes to scale their portfolio. First, the team progressed from building one company per year with their team of three to four companies per year with a team of 13.

Next, eFounders figured out how to scale recruiting efforts. One of the biggest bottlenecks for studios is finding the right entrepreneurial talent, which eFounders now finds through both their internal connections as well as leveraging new and growing external entrepreneurial networks.

Finally, to keep the flywheel going, a studio has to scale its ideation process. eFounders focuses on

finding new ideas that fit their team's subject matter expertise so that they can inspire the future of work.

Studio Thoughts: What processes does your studio have in place to ensure you can scale rapidly?

eFounders entrepreneur on the impact of the studio structure:

"Studios are not for everybody. There is no single model that works for everybody. What people don't understand about eFounders is that they are literally working right there with you. On the first day you sit down with your co-founder and on the other side of the room from you is the core team. Second, being at eFounders is different. It's not getting advice or mentorship from eFounders, but they're actually working hands-on with you to grow. eFounders takes so much time in being with you to refine your product quickly, know what your customers are saying and help you. eFounders forces and pushes its teams to work with and talk to its users, otherwise you'll be developing a product that no one wants. Just by being an eFounders company doesn't mean you are great, but there is a curiosity about your company being affiliated with the studio brand. eFounders has a great network of angels and investors which significantly simplifies the fundraising process. We were able to raise our pre-seed round in just a few days. It's important to be as efficient as possible in the fundraising process so that you can focus your time on the business."

—Alexandre Louisy, Co-Founder & CEO at Upflow



High Alpha

Founded in 2015, startup studio High Alpha has a portfolio of 19 companies with four exits. Based out of Indianapolis, Indiana, High Alpha's portfolio has raised more than \$160M.

What is the key factor that got High Alpha to this point in a short amount of time?

Network. With a co-founding team of four entrepreneurial leaders (Scott Dorsey, Kristian Andersen, Eric Tobias, and Mike Fitzgerald), High Alpha set themselves up for success from day one. The team has a unique blend of backgrounds with different strengths that complement each other; in addition, they had all previously founded businesses.

The first piece of High Alpha's network that stands out is their connections to the venture community. The team's background of scaling startups and founding venture funds allowed High Alpha to capitalize early with some notable investors like Foundry Group, Emergence Capital, and Greenspring Associates.

Second, High Alpha knew their unique expertise and focused all of their efforts on B2B SaaS. From previous work, this is where the team not only had the most domain knowledge, but more importantly, the best network. This has allowed the High Alpha team to use that network to go out and hire leaders from the industry they know so well to come in and run their next venture.

Finally, High Alpha has embraced supporting the Indianapolis startup ecosystem. The team supports the local ecosystem through creating an internship program for rising college seniors, partnering with local organizations to support their business endeavors (sit on boards, donate event space, etc.), and recruiting, which is the highest form of economic development. Through the first four years of High Alpha's existence, the portfolio companies generated more than 500 new jobs for Indianapolis.

Because of their access to human and financial capital, the High Alpha team has seen success at a rapid pace as they continue to build and grow their portfolio and ultimately their impact on the Indianapolis economy.

Studio Thoughts: What is the makeup of your founding team? What investor connections does your team have on day one of launching your studio? Will your founding team's network help you grow at a faster rate than the average venture firm's portfolio?

The impact of the studio structure for High Alpha entrepreneurs:

"Being part of the High Alpha platform, you have access to finance, HR, recruiting — this enabled us to focus on our early product and customers, I'm not even sure how to measure it. Having that expertise at a level that we wouldn't have prioritized as an early company helps all of us think bigger and execute more aggressively, and makes our investors feel more comfortable. If we add all of that up, it translates to speed. It lets us go far faster than

we could on our own. I will never do it another way.”

—Scott McCorkle, CEO, MetaCX

“High Alpha is really unique because they’re more than just an investor. In so many ways, they’re a co-founder. They, very quickly, say ‘we’ instead of ‘you,’ and ‘us,’ and ‘our team.’ Really quickly, you feel like you have this big team who’s really invested in the success of your company and what you’re building together.”

—Paige McPheely, CEO, Base

“When I think about the studio services, it’s more than just the back office. It’s more than an outsourced vendor. High Alpha established a best-in-class foundational element, and I don’t think we’d be where we are today without it.”

—Eric Christopher, CEO, Zyllo



CASE 2



Founded in 2011, [Science Inc.](#) has a portfolio of 40 companies with eight exits. Based out of Santa Monica, California, Science Inc.'s portfolio has raised more than \$800M with acquisitions amounting to \$1.3 billion+. All of this was accomplished from raising a \$40M Fund I in 2011 and a \$75M Fund II in 2017.

Why unique domain expertise and financial resources are so important for studio portfolio success—

Science Inc. has made a splash in the studio asset class, largely due to two key themes. First, they have solid domain expertise in CPG, mobile, marketplaces, and select e-commerce opportunities. Second, they have a strong ability to raise money and provide the necessary financial resources for their startups.

The founding team at Science Inc. consists of executive leaders from Myspace, Photobucket, BillShrink, Fox Interactive Media, Tsavo Media, L.A. Times, and more. Having a team with this background, Science Inc. saw an opportunity to use the studio model. As a studio, they provide hands-on operational guidance for founders. With a focus in a specific domain expertise to provide an unfair advantage for the studio portfolio, founders can focus on three core components of their work. Founders at Science Inc., as they leverage their institutional co-founder, can solely focus on building new products, acquiring new customers, and servicing the new customer base.

Founders also receive a second benefit in working with Science Inc. Beyond the domain expertise, portfolio companies get access to additional financial resources through the studio. This is an immense advantage for startups when it comes to fundraising and having a whole other team focused on getting access to capital. Science Inc. is connected to leaders across the investment landscape, including their own investors like Sherpa Capital, Hearst Ventures, White Star Capital, and many others. Ultimately this has led to rapid growth ending in eight acquisitions, including Dollar Shave Club (Unilever), Famebit (Google/YouTube), HelloSociety (NYTimes), DogVacay (Rover), and PlayHaven (RockYou).

Studio Thoughts: What is your studio's unique expertise? How are you going to help your ventures get access to financial capital at a faster rate than the average startup?

Science Inc. entrepreneur on the impact of the studio structure²¹:

"Every day I get to work with people (i.e., Science partners and employees) who have built, run, and sold companies worth hundreds of millions of dollars. Their experience in areas from design, to financing, to architecture is invaluable, and their networks are blue-chip... Equally special is getting to work side-by-side with some of the best entrepreneurs in California. Even though Science companies are separate entities, there's a wonderful, cross-pollinating effect happening everyday between them."

—Mike Dubin, Co-Founder & CEO of Dollar Shave Club

Appendix

APPENDIX A: STUDIO VS. VC FIRM RETURNS

Illustration courtesy of John Carbrey at FutureSight

Understanding Studios' Relative Value Creation Compared to Venture Capital Firms

A studio has distinct differences when compared to venture capital firms in value creation. Since venture studios focus inherently on forming new ventures, significant equity value is created through the studio's operation as an institutional co-founder. The result is that studios can create 10x as much value in a venture as a venture capital investor would from their financial capital alone.

Venture Capital Example

To explain this further, imagine the following example of a \$500K venture capital investment vs. a similar scenario in a venture studio. \$500K is invested to create a new technology company – \$350K is a preferred investment and the remainder contributes towards the creation of common equity.

VENTURE CAPITAL INVESTMENT		VENTURE STUDIO INVESTMENT	
		Total Investment (Note + Formation)	\$500,000
Convertible Note	\$500,000	Convertible Note	\$350,000
Discount	20%	Discount	20%
Pre-Conversion Cap Table			
		Studio (Common)	4,000
Founder 1	6,000	Founder 1	4,000
Founder 2	6,000	Founder 2	4,000
Total Shares	12,000	Total Shares	12,000
Next Round Pre-Money Valuation	\$5,000,000	Next Round Pre-Money Valuation	\$5,000,000
Conversion Valuation	\$4,000,000	Conversion Valuation	\$4,000,000
Conversion Share Price	\$333	Conversion Share Price	\$333
Shares Issued for Convertible Debt	1,500	Shares Issued for Convertible Debt	1,050
Post-Conversion Cap Table			
		Studio (Common)	4,000 (31%)
Founder 1	6,000 (44%)	Founder 1	4,000 (31%)
Founder 2	6,000 (44%)	Founder 2	4,000 (31%)
VC (Preferred)	1,500 (11%)	Studio (Preferred)	1,050 (8%)
Total Shares	13,500	Total Shares	13,050
Post-Money Valuation	\$5,500,000	Post-Money Valuation	\$5,350,000
Total Equity Value of VC Fund	\$611,111 (1x)	Total Equity of Studio	\$2,070,307 (3.4x)
Value Created by Conversion Date	\$111,111 (1x)	Value Created by Conversion Date	\$1,570,307 (14x)

Relative Value Creation Between Studios and Venture Capital Firms

As seen in the table above, even at the early stages of an investment, there is a huge value creation difference between a traditional venture capital firm and a venture studio. In this case there is 3.4x more equity value in the studio vs. a traditional venture firm and in terms of created value (beyond the initial capital investment) the studio has created 14x more value than a venture capital firm.

These significantly different dynamics are a result of the role of founder that studios take vs. a purely securities selection role in the case of venture capital firms.

Comparing Investor Returns

Below is a comparison of relative investor returns in this early stage example. Assuming studio investors receive 20% of the common shares created by the studio, in the example below, investors would have 2.3x the return the VC firm would provide out of the gate.

	Seed VC Firm	Studio
Total Invested Capital	\$500,000	\$500,000
Formation Capital Investment	\$0	\$150,000
Investor Interest in Studio Founder Shares	N/A	20%
Convertible Debt Investment	\$500,000	\$350,000
Investor Interest in Convertible Debt	100%	100%
Investor Returns		
Investor Share of Studio Common	\$0	\$327,969
Preferred Equity Value at Conversion	\$611,111	\$430,460
Total Investor Equity Value	\$611,111	\$758,429
Value Created Above Initial Investment	\$111,111	\$258,429
Studio's Return Relative to VC Firm		2.3x

APPENDIX B: STUDIO CAP TABLE EXAMPLE

Illustration courtesy of Enhance Ventures

The below figure is an example of a studio that spends more time and effort with their ventures.

	Ideation	Validation	Creation	Spin-In/ Out	Scale Up (No Follow On)	or Scale Up (With Follow On)
Investment Amount from Fund (\$K)	\$0	\$120	\$280	\$1,800	\$0	\$800
Investment Amount Total (\$K)	\$10	\$120	\$280	\$1,800	\$5,000	\$5,000
Equity at Cap (Fund)	0.0%	3.0%	7.5%	30.0%	24.0%	27.2%
Equity (Studio)	57.0%	55.4%	52.8%	40.0%	32.0%	32.0%
Equity (Founders)	34.4%	33.3%	31.7%	24.0%	19.2%	19.2%
Equity (ESOP)	8.6%	8.3%	7.9%	6.0%	4.8%	4.8%
Equity (Scale Up Investors)	0.0%	0.0%	0.0%	0.0%	20.0%	16.8%
Equity (Total)	100%	100.0%	100.0%	100.0%	100.0%	100.0%

Endnotes

- 1 Dessi, C. (2016, February 2) 5 Top Indicators for Startups Success, According to this TED Talk. Inc. <https://www.inc.com/chris-dessi/this-ted-talk-explains-the-5-reasons-why-startups-succeed.html>
- 2 <https://www.enhance.online/>
- 3 <https://www.idealab.com>
- 4 Finkle, J. (2019, June) Team vs. Timing as a Predictor of Startup Success. AlleyWatch. <https://www.alleywatch.com/2019/06/team-vs-timing-as-a-predictor-of-startup-success/>
- 5 Lawrence, J. (2017, July 28) Startup Studio vs. Accelerator. Medium. <https://medium.com/boulder-bits/startup-studio-vs-accelerator-239eebbc4f03>
- 6 CB Insights (2018, September 6) Venture Capital Funnel Shows Odds of Becoming a Unicorn are About 1%. Research Briefs. <https://www.cbinsights.com/research/venture-capital-funnel-2/>
- 7 Rider, J. (2018, September 12) What Does It Take To Raise Your Next Round in 2018? Crunchbase News. <https://news.crunchbase.com/news/what-does-it-take-to-raise-your-next-round-in-2018/>
- 8 Source: Internal analysis from a survey GSSN conducted with participation from 258 studio startups
- 9 Nasralla, N. (2020, August 12) Built for Speed. GAN. <http://gan-7000682.hs-sites.com/built-for-speed-whitepaper>
- 10 Swildens, H. and Yee, E. (2017, February 7) The Venture Capital Risk and Return Matrix. Industry Ventures. <https://www.industryventures.com/the-venture-capital-risk-and-return-matrix/>
- 11 Go, R. (2018, March 8) How VCs Get Measured. Better Everyday. <https://bettereveryday.vc/how-vcs-get-measured-fbfc4d513436>
- 12 Pitchbook (2017, October 23) 2008 Vintage US Buyout Funds with Materials and Resources Investments. PitchBook Platform. <https://pitchbook.com/newsletter/2008-vintage-us-buyout-funds-with-materials-and-resources-investments-Ypp>
- 13 Wood, M. (2020, February 3) Raising Capital for Startups: 8 Statistics that Will Surprise You. Fundera. <https://www.fundera.com/resources/startup-funding-statistics>
- 14 Bowden, A. (2017, May 19) VC Investing Still Strong Even As Median Time to Exit Reaches 8.2 Years. VentureBeat. <https://venturebeat.com/2017/05/19/vc-investing-still-strong-even-as-median-time-to-exit-reaches-8-2-years/>
- 15 Higley, T. (2016, April 4) Start With a Wicked Problem. Medium. <https://tomhigley.medium.com/start-with-a-wicked-problem-a7d1e450f06>
- 16 Woods, S. (2019, February 5) Five Years to \$1 Billion: The Dollar Shave Club Story. Sterling Woods Blog. <https://sterlingwoods.com/blog/dollar-shave-club-story/>
- 17 Statista (2016, February 21) Revenue of Dollar Shave Club in the United States from 2012 to 2015. Statista Research Department. <https://www.statista.com/statistics/670766/revenue-dollar-shave-club-us/>
- 18 Levi, A. (2020, September 16) A Low-Profile Investor Who Bet On Snowflake Eight Years Ago Is Up More Than \$12 Billion After IPO Pop. CNBC. <https://www.cnbc.com/2020/09/16/snowflake-investor-sutter-hill-holds-11point6-billion-after-ipo-pop.html>
- 19 Carbrey, J. (2020, September 20) How Snowflake Took the Venture Studio Path to a \$70B Market Cap. Medium. <https://medium.com/futuresight/how-snowflake-took-the-venture-studio-path-to-a-70b-market-cap-1b0de07adfff>
- 20 Elziere, T. (2020, October 20) eFounders Letter #8: Scaling the Startup Studio Model. Medium. <https://blog.efounders.co/efounders-letter-8-scaling-the-startup-studio-model-cd56e8a82b74>
- 21 Etherington, D. (2012, March 6) Science Inc.'s Dollar Shave Club Raises \$1M For Razor Delivery. Betakit. <https://betakit.com/science-inc-s-dollar-shave-club-raises-1m-for-razor-delivery/>