

00:00 - Hi and welcome, everyone.
00:02 Thank you so much for joining us today.
00:05 We have a really great class prepared for you.
00:08 I wanna start by congratulating you all
00:11 on your acceptance to Suffolk.
00:13 We are so excited to have you with us today.
00:15 As you continue your journey
00:16 throughout the college search process.
00:18 My name is Evelyn Espitia, and I'm an admission officer here
00:21 at Suffolk, as well as the proud Suffolk alum.
00:25 I recruit in the states of Pennsylvania,
00:27 New Jersey, and California.
00:29 So if any of our attendees are here from those areas,
00:32 it's likely that I visited your school
00:34 or even had the pleasure of reading your application.
00:37 So here at Suffolk, we have two schools of study.
00:40 We have the College of Arts and Sciences
00:42 and the Sawyer Business School.
00:44 So some of you may already know
00:46 exactly what you want to study
00:48 or some of you may have a long list of ideas.
00:50 And some of you may have no idea at this time,
00:53 and that's perfectly okay.
00:54 We have over 70 different majors for you to choose from.
00:57 As a member of the business school,
00:59 you'll be steps away from life-changing internships,
01:02 career connections, and Fortune 500 companies.
01:06 Our classroom experiences are enhanced by our location.
01:09 Being in the center of downtown Boston
01:12 means you'll be right in the middle of innovation.
01:14 So joining us today is Nesij Huvaj
01:17 an instructor in our management
01:19 and entrepreneurship department.
01:20 He's got a great class planned for you.
01:22 If you have any questions throughout today's presentation
01:25 please feel free to use the raised hand function
01:28 and we'll unmute you
01:29 or you can type your questions in the chat.
01:32 So Professor Huvaj, I'll let you take it from here.
01:36 - Thank you, Evelyn.
01:38 Welcome everybody.
01:40 My name is Nesij Huvaj,
01:42 and I'm an associate professor of management
01:44 and entrepreneurship at the Sawyer Business School
01:46 of Suffolk University.
01:48 I'm here today to go over a class
01:51 that I do with my students that I present to
01:55 and discuss with my students.
01:57 In fact, I discuss the video that I'm gonna show you
02:00 and ask questions about, dissect, and spend some time on.
02:04 About three months ago, two and a half months ago or so,
02:07 in the beginning of the spring semester,

02:08 this was the second class in my undergraduate course
02:12 titled Measuring Value, ENT 319.
02:15 This is a required course for entrepreneurship majors
02:18 in which we look into quantitative aspects
02:21 of the entrepreneurial journey
02:23 of individuals and startups, businesses.
02:26 We examine different issues
02:28 like how to scale and grow the business.
02:31 What are some considerations about funding?
02:33 When do you break even?
02:35 How do you manage inventory?
02:36 How do you scale up a whole bunch of quantitative things,
02:41 but discussed in a very practical way?
02:43 So this is not an accounting class or a finance class,
02:47 but we use accounting knowledge and finance knowledge
02:49 to actually make better decisions as entrepreneurs.
02:53 That's the reason why this course exists.
02:56 Today, I would like to show you a video from "Shark Tank,"
03:01 an entrepreneurial pitch of two sisters
03:04 who are in the jewelry design business.
03:07 And there's a number of really interesting aspects
03:10 or characteristics of the business of these two ladies.
03:14 And we will discuss some numerical
03:16 quantitative considerations.
03:18 And one of the goals that we will have
03:21 in this conversation will be to understand the some secret
03:25 or hidden or not clearly visible background information
03:29 about the entrepreneurs, about their ventures,
03:33 some of the assumptions that they are making,
03:35 correctly or wrong,
03:37 and how we can use that information to gauge
03:40 the potential for success of the venture.
03:43 We will pretend to be investors
03:46 imitating the "Shark Tank" investors, the sharks,
03:50 but we will also think
03:51 like entrepreneurs at different times.
03:53 So let's get started.
03:55 This is my video that I will show you.
03:59 And it's about 10, 11, or 12 minutes long in total,
04:04 but I will pause it every now and then
04:06 to ask you a couple of questions.
04:08 So I hope you will pay attention to the words that they say,
04:12 the numbers that they mentioned about their profit margins,
04:15 how much it costs to do certain things.
04:17 There is of course, some drama aspect.
04:20 This is from a TV show after all.
04:22 And the producers, of course, want their show
04:23 to be watched by a lot of people.
04:25 They want to create some buzz around how interesting
04:28 and cool the idea or the venture is.
04:31 And of course, there'll be some promotional material
04:33 in it in terms of how the business will be perceived,
04:37 but we'll be focusing on the underlying numbers
04:40 and growth potential, and those kinds of things

04:44 that are of concern to us in this class.
04:46 So I'll start the video
04:47 and ask you to watch about a minute or so,
04:50 and be ready for a couple of questions
04:51 that I will ask you along the way.
04:53 (dramatic and upbeat music)
05:00 - I'm Rachael Mann, and this is my sister
05:02 and business partner, Mackenzie Burdick.
05:04 - And we're the creators of Litter Jewelry
05:06 in San Francisco, California.
05:09 - [Rachael] Growing up, we were always creating
05:10 and designing together.
05:11 We were always really into fashion.
05:13 Maybe out of different materials.
05:15 I studied interior design
05:16 and Mackenzie studied fashion design.
05:18 You know, we've always just been creators.
05:20 Creating is just in our blood.
05:21 It's what we love to do.
05:22 - Making custom jewelry just kinda fell into our laps.
05:25 I really wanted to create a unique piece of jewelry
05:27 that would really make me stand out for a special event.
05:30 And so, I broke up a necklace and wore it in my hair
05:32 as a headpiece and the response was unbelievable.
05:35 - So we made 50 more, and we entered them
05:37 in a trunk show here in San Francisco
05:40 and sold out of every single one of them.
05:42 And that's when Litter began.
05:43 (upbeat music)
05:45 - We take vintage chain and broken pieces
05:47 of costume jewelry, and we make pieces of body jewelry.
05:51 Our entire business is just the two of us.
05:53 And we are working around the clock.
05:55 - Coring the resins, sourcing the materials,
05:57 making all the original hand molds in my backyard.
06:01 - Mackenzie's got a new baby coming.
06:02 I have a young son.
06:04 We need somebody to come in
06:05 and just help us manage all of this.
06:06 That's why we need the sharks.
06:08 We need somebody who can focus on the business side
06:10 so that we can get back into the creative area
06:12 and making new collections.
06:14 - [Mackenzie] We really wanna be able to capitalize
06:16 on a trend that we created.
06:17 (upbeat music)
06:20 (dramatic music)
06:23 - Okay, that was the kind of elevator pitch
06:26 explaining what they're doing.
06:27 Now we'll get into the details.
06:29 (dramatic music)
06:40 - Hi, Sharks, I'm Mackenzie,
06:41 and this is my sister, Rachael, and we're Litter.
06:45 We're a San Francisco-based jewelry

06:46 and accessory designers.
06:48 - We're here today seeking \$80,000
06:50 in exchange for 51% stake in our company.
06:52 - Let me pause the video right here.
06:54 This is the first question that I typically
06:57 ask my students when we're watching
06:59 or dissecting analyzing a "Shark Tank" video pitch
07:02 of an entrepreneur or a team of entrepreneurs.
07:05 Oftentimes the video start, the pitch starts
07:08 with an equity stake that the entrepreneurs
07:11 are offering to the investors.
07:13 By that, we mean the entrepreneurs
07:16 before they'd go on the show, before they are on the show,
07:20 they own 100% of their business.
07:22 It's entirely theirs.
07:23 They started this, they put money
07:25 into the business to buy supplies
07:27 or spend money for marketing, advertising, whatever reasons.
07:31 And they grew the business to a certain level.
07:34 But now they're looking for some input
07:36 in terms of money and advice, connections,
07:39 some professional connections, such as accountants, lawyers,
07:43 other kinds of professional service providers
07:45 that help entrepreneurs grow their business
07:47 that will be provided by the Sharks or the angel investors.
07:51 And as part of that deal,
07:53 because the entrepreneurs are asking for money
07:56 as well as advice and connections and additional inputs,
07:59 support for their business,
08:02 they are offering a portion of their business
08:04 to the Sharks or the angel investors.
08:06 This is something that we're all familiar with.
08:08 The valuation comes into the picture
08:10 when they mentioned a dollar figure.
08:12 In this case, they're seeking \$80,000
08:15 that the Sharks will invest into their business,
08:17 and they're offering 51% stake of their business,
08:22 which means they're offering 51%
08:24 of the shares of their company.
08:26 Now, here is my first question to you
08:28 that I launched as a poll.
08:30 What is the implied valuation?
08:33 By implied, we mean they don't specify how much they think
08:36 the business is worth,
08:37 but we can figure out how much they think
08:40 the business is worth by looking at these two numbers.
08:43 So what's your take?
08:44 Roughly, how much do the entrepreneurs
08:46 think their business is worth?
08:56 Take a few seconds to figure it out
08:58 and you don't need to use a calculator.
09:00 We're not asking for specific, very precise numbers,
09:03 roughly more or less,
09:05 how much do you think they are considering

09:09 their business to be worth?
09:16 Okay, we have two respondents as of now.
09:19 I'll end the polling and share the results with you.
09:24 Both respondents got the number right.
09:26 It's about \$160,000.
09:28 Now I don't want you to think like, "Oh man, this was easy."
09:31 "Are we going to spend the whole semester
09:32 "discussing these kinds of simple numbers?"
09:34 It gets a little more complicated.
09:36 This is just the warmup phase.
09:37 But it's an example of how we deal with numbers
09:40 in entrepreneurial finance.
09:43 Unlike traditional finance
09:45 where banks, insurance companies,
09:47 or established institutions are concerned
09:50 with valuing companies for providing loans
09:53 or credit to companies.
09:55 In the entrepreneurial finance landscape,
09:58 most of the time, we're dealing with very small startups,
10:00 some companies, some venture that was started
10:03 several months ago, maybe a year ago.
10:05 So we don't have a track record.
10:07 We don't have five years, eight years,
10:09 10 years of historical data
10:11 in terms of how much money the company made,
10:13 how much was the expenses,
10:15 how much they grew in number of customers
10:17 or revenue and those kinds of numbers.
10:19 We typically don't have them.
10:21 So we have to think about the potential of the business,
10:24 how much it can grow into the future.
10:26 And that's why valuations, for example,
10:30 are not very well justified.
10:32 It's in the eye of the beholder, if you will.
10:35 And oftentimes you will hear from some pros experts
10:38 in that space to say something like valuation of startups
10:42 or small entrepreneurial ventures is an art and science,
10:45 more art than science, they would say,
10:47 simply because we don't have historical data.
10:49 So these ladies, the two sisters, entrepreneurs,
10:52 think their business is worth about \$160,000.
10:55 We got that number right.
10:57 Now let's continue listening to their pitch.
10:59 And I'll ask you a couple of other questions
11:01 about their products, their profit margins, and whatnot.
11:03 So pay attention to the numbers.
11:06 - Litter was started in 2009
11:08 when I broke up the necklace
11:09 and wore it in hair as a headpiece.
11:11 We were approached by a friend to make many more
11:13 of those headpieces and sell 'em in a local jewelry show.
11:16 Rachael and I went around to all the flea markets,
11:18 vintage stores, thrift stores in our area
11:20 and collected up chain.

11:21 We made 50 head pieces and sold out
11:24 at 150 bucks a pop.
11:26 With the money from the show,
11:27 we got a studio, some materials,
11:28 and launched our website.
11:30 Right away, our designs burned demand,
11:32 and by 2010, we were selling wholesale
11:34 to retailers globally.
11:36 - So we make headpieces, ear cuffs,
11:39 jewelry that goes down your legs,
11:40 which is just so sexy,
11:42 shoe jewelry which can totally transform
11:44 the look of any shoe,
11:45 arm jewelry, hands, which are awesome,
11:50 and we even make chain mustaches.
11:53 - [Barbara] Oh my God. - Why?
11:55 - Paparazzi shields is what we do.
11:57 - Oh, wow.
11:58 - People at festivals, music festivals,
11:59 they absolutely love them.
12:01 - I'm guessing Coachella?
12:02 - Our designs have been featured
12:03 in all of the top fashion magazines.
12:04 We've been worn by celebrities
12:06 and all of this exposure we got
12:08 without one single dollar being spent
12:09 on any advertising or PR.
12:12 And so, we think this is a perfect example
12:14 of how much bigger Litter would get
12:16 if we had more team members managing our growth
12:18 and focusing on aggressive sales.
12:20 - Let me pause the video to point out something.
12:22 I don't have a question about what they just said,
12:25 but I want you to pay attention
12:27 to something very important that they said.
12:29 They have not spent any money
12:31 on advertising or promotions or marketing.
12:34 This is really unique
12:35 or this is really rare because most startups,
12:39 especially when they're trying to grow and scale up
12:42 spend a lot of money.
12:43 Actually, most of their budgets,
12:45 annual budgets, on advertising.
12:47 I know this from data that I have been able to access to.
12:51 I'm also doing research in entrepreneurship
12:54 in the field of entrepreneurship
12:55 on crowdfunding or coaching of entrepreneurs,
12:58 how entrepreneurs work with investors.
13:01 What are some important factors to consider?
13:03 Those kinds of things.
13:04 So I'm aware of this knowledge from the research space.
13:08 I also happen to have a cousin
13:10 who used to be a venture capital manager
13:12 in Europe, in Austria.

13:14 And one time when we had a conversation,
13:16 he casually said something like this:
13:20 more than 50% of all the money that we give to startups,
13:24 that the venture capital companies invest in startups,
13:27 end up in the pockets of Google or Facebook.
13:30 So he's the person, or he used to be the person.
13:32 He changed jobs now,
13:34 but when he was a venture capital manager,
13:36 he was doing deal screening
13:38 very much like what we're seeing on "Shark Tank,"
13:41 except with slightly larger numbers,
13:43 slightly later stage ventures,
13:45 one, two-year-old companies typically.
13:47 And the conversation they typically have,
13:49 venture capitalists, have with entrepreneurs
13:52 is around how much money do you need to scale up
13:55 to the next level, to the national or global scale,
13:58 to amp up your productions
13:59 and your distribution to reach to more customers?
14:02 Oftentimes, most of the money,
14:04 more than 50% of the money
14:06 that the venture capital company gives to
14:09 or invests in startups is spent on advertisements online
14:14 on Google's Ad-words systems or platforms, YouTube maybe,
14:18 and Facebook and those kinds of platforms.
14:20 I think this is important to remember in this day and age,
14:22 in 2020s, we can not think of traditional business
14:26 expenditures and revenue models.
14:28 We have to think about what actually happens
14:30 in the market in the business world.
14:32 And it's the fact of the business world now
14:35 that advertising marketing takes up
14:37 more than half of startup funds,
14:39 which are really valuable and hard to get.
14:42 I just wanted to point out that these ladies,
14:44 this company here, had done something remarkable
14:47 in that they didn't spend any money
14:49 to achieve the success that they've achieved.
14:51 Important to remember
14:53 - [Kevin] How big is Litter now?
14:54 What were sales last year?
14:55 What are they gonna be this year?
14:56 - Last year our sales were 78,000,
14:58 and this year we're on track for 150.
15:01 - Why are sales so small?
15:03 I mean, this stuff is unique.
15:04 I haven't ever seen it before, but only 150,000.
15:08 - We're hand-making every single piece ourselves right now.
15:11 - [Mark] So how much does a typical piece cost?
15:13 And what's your most expensive piece?
15:15 - The average price is a hundred, around a hundred dollars.
15:18 And then what does it cost you to make one?
15:19 - About \$2.
15:21 - Let me pause the video one more time

15:23 to remind you or go over the numbers again.
15:26 Their average piece that they sell, handmade jewelry,
15:29 made out of thrown away chains and other kinds
15:32 of litter is sold for a hundred dollars.
15:35 Whereas the material costs
15:37 for those things that they make is \$2.
15:39 So we can do a very quick calculation.
15:41 I don't need to ask you a question on this.
15:43 They're making about \$98 per \$100 of revenue
15:47 that they're making.
15:48 This is impressive.
15:49 This is a huge percentage or huge profit margin,
15:53 but keep in mind whatever they're doing,
15:55 they're doing by hand.
15:56 So scaling up is a major concern here.
15:59 There's no factory, there's no workshop.
16:01 There's no mechanism to produce tens of hundreds
16:04 of thousands of those products, but at the unit level,
16:07 which is where we start analyzing
16:09 the potential of a business.
16:11 When they're selling one product, if they're selling it
16:13 for a hundred dollars, they're making \$98
16:15 of that money as profit is what they're thinking.
16:19 We'll dig a little deeper into that.
16:20 (dramatic music)
16:21 - I have never seen a piece like that.
16:23 - This one.
16:24 - [Daymond] Looks like basically chain mail.
16:25 - Well, this piece, we're really proud of.
16:28 This took us a few hours to make,
16:30 \$20 in material, and we just sold it
16:31 at a gallery for \$1,600.
16:34 - Let me pause it again to highlight the numbers.
16:36 These are impressive and interesting numbers.
16:39 They've spent \$20 on the chain
16:41 and metal there and they sold it for \$1,600.
16:45
16:46 Again, this is an enormous margin.
16:48 Looks like a very profitable, wonderful business,
16:51 but keep in mind, they don't mention
16:53 specific business-related expenses like labor.
16:56 They don't say for example
16:57 how much they should be getting paid,
16:59 which obviously are not paying themselves.
17:01 They're just focusing on the material cost,
17:03 and it's a fraction.
17:04 It's a small portion of the cost
17:06 of making a product like this.
17:08 Surely, they are using some hand tools, some pliers,
17:10 some hammers, and you know, any other material.
17:13 Those things costs some money to buy and they wear out,
17:15 so you have to buy them over time repeatedly.
17:18 They must be spending some money on gas, propane,
17:22 for blow torches or electrical machines that they use.

17:25 So there are some additional kinds of expenses
17:28 that they don't talk much about yet.
17:30 The only thing that they're focusing on
17:32 is the material costs that goes into their products.
17:35 And that's fine.
17:36 They're not doing this to mislead us,
17:37 but they're being a little naive
17:39 as entrepreneurs, if you will.
17:41 So as we're listening to pitches like this,
17:43 as we're thinking about what's the information communicated?
17:46 What's the implication of that for investment, for growth?
17:49 We have to put these things together,
17:51 like the pieces of a jigsaw puzzle.
17:53 It's not just the video and the fun, interesting bits
17:55 that we're listening to.
17:56 There are all these new numerical components
17:58 about the cost structure, how much things are sold for,
18:01 profit margins, scaling issues,
18:03 additional business-related expenses and all those things
18:06 that are brushed through.
18:07 We're trying to uncover them
18:08 and just spend some time to analyze those.
18:10 - [Rachael] 1,600.
18:12 - This is an example of the kind
18:13 of custom work that we do for celebrities music videos.
18:16 We've been pulled for like Kesha, Ciara, Lady Gaga,
18:19 - So do you have now,
18:21 I'm just trying to understand this.
18:22 Do you have pending orders
18:24 that can't keep up with? - [Rachael] We do.
18:26 Well, we just got picked up by Urban Outfitters,
18:29 and they are having us design
18:32 an exclusive collection for them.
18:34 - And is there a minimum order, Rachael, with them?
18:36 Are they guaranteeing a certain order quantity?
18:38 - Right now, it's a 400-piece order.
18:40 - We have a 400-piece PO.
18:42 - And they're gonna see how it goes.
18:44 - [Rachael And Mackenzie] Exactly.
18:44 - You guys are making everything by hand.
18:46 - [Rachael And Mackenzie] Everything.
18:47 - That's craziness, right?
18:49 Can somebody else make these or is it required
18:50 that special touch that you guys have?
18:52 - Other people can make 'em.
18:53 - The designs are set by us
18:55 and then from there other people can take it from there.
18:58 - I'm trying to figure out how to ramp this up
18:59 'cause I mean, it's hip, it's fashion.
19:02 You're the designer babes
19:03 You need somebody behind you or in front of you
19:05 that's selling this and getting huge orders.
19:08 - We would like the money to go
19:09 towards hiring a great salesperson

19:11 and then maybe getting us a great PR agency
19:13 that just constantly is pushing.
19:14 - But wait a second.
19:15 You've done all this without any PR.
19:16 I like that model.
19:17 - Yeah, but think how much bigger we could get.
19:18 - Manufacturing.
19:19 If I send one piece over to a manufacturer,
19:24 is there any reason he can pound out 10,000 of them?
19:26 - There's no reason.
19:30 - Okay, let me pause here to remind you
19:32 of the Urban Outfitters numbers.
19:35 They said, the entrepreneurs said, they have been picked up
19:38 by Urban Outfitters, quote unquote.
19:40 And for a lot of people, it might mean
19:43 that, Oh, these guys are these ladies
19:45 aren't actually manufacturing their products
19:47 for Urban Outfitters, which is a large chain, which is hip,
19:51 which is active, successful, at least up until let's say,
19:56 and they have close to 240, 250 stores, or they used to.
20:01 I don't know the exact number now,
20:03 but it's a chain, and it's all over the country.
20:05 It has a lot of foot traffic,
20:07 people walk in to Urban Outfitters to check
20:09 on the latest trends, new fashion, new styles
20:12 and arguably they're making a lot of sales.
20:14 So if the entrepreneurs say something
20:16 like we've been picked up by Urban Outfitters,
20:18 that does not necessarily mean
20:21 that this company is making 100,000 products
20:24 and selling them to Urban Outfitters or 10,000 products.
20:28 Again, remember the production style,
20:30 the way they are producing their products, by hand.
20:32 These two ladies are working to produce those things.
20:35 So if we were to pause and spend a couple more minutes,
20:38 which we're not gonna do right now,
20:39 but just to give you a indication,
20:42 some information about how we analyze these things.
20:45 When you think of a person or two people
20:47 manufacturing stuff like this,
20:49 you need to be aware of the time that they spend
20:52 to manufacture a product.
20:53 That body chain, for example,
20:55 the chain thing that they sold for \$1,600,
21:00 that surely took more than a day to make,
21:02 maybe several days working on this intricate thing.
21:05 It's artistic work.
21:06 It's artisanal work.
21:07 So there's no machine that can speed up the process,
21:10 which means this business is constrained on the supply side.
21:14 So they're struggling to manufacture more.
21:17 They're not struggling to sell more
21:18 because whatever they make is sold
21:21 to celebrities or festival-goers or whatever

21:25 customer demographic that they can tap into,
21:28 they have been able to tap into.
21:29 It works.
21:30 They're not struggling with getting the word out
21:32 or showing people their designs.
21:35 So the selling part, the market reach part, is working fine.
21:39 The production part, the supply part,
21:41 is the bottleneck or where the challenge is.
21:43 And they're not addressing this
21:45 by saying something like Urban Outfitters
21:48 or they mentioned something like,
21:49 "We've been selling to global wholesale."
21:52 These are not realistic because let's think
21:54 about how Urban Outfitters actually explores
21:58 working with two entrepreneurs, two sisters like this.
22:02 If they're ordering 400 pieces, chances are,
22:05 they're not gonna send one or two pieces
22:07 to each of their stores across the country.
22:09 That's not a good way to test this.
22:11 A more practical way, which most businesses,
22:13 most chain stores actually do, would be to identify
22:16 a couple of representative regions.
22:19 For example, Urban Outfitters can say,
22:22 we have different customer demographics and preferences,
22:24 stylistic choices.
22:26 So we'd like to look at large sales,
22:28 stores that have large sales.
22:30 For example, let's pick up a flagship store
22:32 in New York City, maybe on 5th Avenue, Manhattan somewhere.
22:36 Let's pick up another one from Austin, Texas
22:38 because that's emerging as a hub
22:40 and attraction young people.
22:43 Let's pick one from Los Angeles
22:45 that they're presenting the West coast.
22:46 Let's pick one from Chicago.
22:49 Let's pick one from Florida, let's say.
22:51 So they will be picking up a couple of the stores
22:53 that they have to represent different demographic tastes
22:56 in the country.
22:57 And then they will say, "Hey ladies,
22:59 "we want you to produce about 400 products for us.
23:04 "And we'll send this to five different stores.
23:06 "Each store will get something like 70 or 80 pieces.
23:09 "There'll be a stand.
23:10 "And when customers walk in into that one store,
23:12 "they'll be part of an experiment unknowingly.
23:15 "We'll be watching them.
23:17 "We'll be asking them questions
23:18 "about which of the products they like.
23:20 "Would they wear this?
23:21 "And we'll be watching, if they purchase this,
23:23 "we'll track the sales, maybe for a couple of months."
23:26 This is the kind of experiment
23:27 that established businesses do

23:29 as they work with entrepreneurs or small startups.
23:32 Whereas the ladies present this as an ongoing relationship,
23:35 which it has not yet turned into.
23:38 So what I'm trying to point out here is there is a lot
23:41 of little considerations, little hidden details,
23:44 in what people say or a simple number
23:47 that they put on their entrepreneurial pitch
23:49 in a PowerPoint file,
23:50 whenever they mention stuff like this.
23:52 And we are trying to be a little more sophisticated,
23:55 educate ourselves more, so that we can read into those lines
23:58 and words and numbers to get a better understanding
24:01 of the weaknesses of every startup and the strengths
24:04 and the advantages that they have with respect
24:08 to what they're doing, whom they're selling to and all.
24:10 So we're trying to infer these data from those signals,
24:14 which come to us as words and numbers.
24:17 - So you wanna work for somebody?
24:19 - We're just looking for the right partner
24:21 that knows what they're doing.
24:22 We just need to know the next steps to take.
24:24 - It's gotten bigger than us.
24:26 - You guys are designers, that's your special sauce, right?
24:28 You guys wanna design,
24:29 and anything else that you do
24:30 takes your time away from designing.
24:31 - Exactly.
24:32 - So you want someone to come in and say,
24:33 "Guys, you do what you do, right?"
24:36 "We'll take over the rest."
24:38 The challenge is, here's kinda the catch-22.
24:41 We can't just come in and work full time, right,
24:43 so you have to hire somebody to come in
24:44 to work full-time. - Exactly.
24:45 - We understand.
24:46 - Tell us how you would spend the \$80,000.
24:47 What do you have envisioned?
24:49 - I would like to hire a really great salesperson initially
24:52 and then also just ramp up our website.
24:53 Our website could be a thousand percent better.
24:55 - Be able to handle higher value.
24:57 - Let me pause the video again.
24:59 I don't have a specific poll question,
25:00 but imagine I was asking you this question in the class.
25:03 Do you think that's the best use of their money,
25:05 now that we know that they don't have a problem selling?
25:08 They have a problem in making.
25:10 So if a more sophisticated entrepreneur
25:14 or a team of entrepreneurs were standing
25:15 in front of these investors,
25:17 they would probably talk about,
25:18 we look at our whole value chain,
25:22 starting with what we create,
25:23 how we communicate to the people,

25:25 the channels through which we sell them, maybe online,
25:28 maybe in stores like Urban Outfitters and other places.
25:31 So they don't seem to have a problem reaching out
25:33 to the customers and whatever they make
25:35 is cool, interesting.
25:37 They're worn by some celebrities,
25:38 which also serves as another free public relations,
25:41 PR or advertising channel for them.
25:44 So they don't have a problem
25:45 on the backend of the value chain,
25:47 the way to deliver and make money off of the products.
25:50 There are problems at the beginning of the value chain
25:52 where they make things, but they're not even aware of this.
25:56 So they approach this issue.
25:58 What are you gonna do with the money
25:59 that you get from us as a run-of-the-mill, generic business,
26:04 which they assume most of the startups
26:06 are dealing with marketing issues.
26:08 That's right, generally,
26:09 but not for this company, for this venture.
26:11 And these questions, oftentimes,
26:15 have hidden questions embedded in them.
26:19 The question that an investor asks an entrepreneur,
26:23 what are you gonna do with the money
26:24 that we'll give you, is actually looking into,
26:27 do you know about business?
26:29 Do you understand the challenges, the different challenges
26:31 of the different stages of making and selling something
26:34 to people, storage, distribution, marketing, advertising,
26:38 manufacturing of this partnerships?
26:40 There's a whole number of things that we need to consider.
26:42 And that simple question, actually aims to understand
26:47 a little more the background of the people
26:49 that they're talking to, the entrepreneurs,
26:51 and whether they're sophisticated, they've studied this.
26:54 They've actually thought about this
26:55 or are they doing something haphazardly,
26:57 which seems to be the case in this situation.
27:00 - Again, we all know it's gonna take more
27:02 than \$80,000 long run,
27:03 but initially we think that would be a good start.
27:05 - You guys are walking proof of concept.
27:07 That's what happened.
27:08 You sold just enough to make it interesting,
27:10 but not enough to say it's a business.
27:12 - Right.
27:13 - I mean, it is so on the tipping point
27:16 because you should be getting \$150,000 orders from somebody,
27:20 not 150,000 a year.
27:21 - We need somebody that is in sales
27:23 that has those department store connections.
27:26 - I don't know what to do with you guys.
27:27 I mean, I'd give you money,
27:29 but I don't want to work at your shop.

27:31 - Yeah, I understand.
27:32 - I want you to bring me a package says,
27:34 if you give me 180,000, 250,000,
27:37 I could turn this into a \$10 million business.
27:39 Here's my plan. - Right.
27:40 - If you told me that, I'd probably be very, very interested
27:43 because I liked the stuff.
27:45 I like the story, and I like you guys.
27:47 And I don't say that very often.
27:49 I should be beating you with a stick
27:51 for making the mistake you've made.
27:52 - But with your money, we could be able
27:54 to spend less time hand-making each piece
27:58 and being able to feel.
27:59 - I don't want you to hand-make anything.
28:00 I want you to get somebody in China to make 10,000 copies.
28:02 - Exactly.
28:03 - I don't have the passion for the jewelry business,
28:05 and I have a full-time job.
28:07 I can't help you find that person, I'm out.
28:11 (dramatic drum beat)
28:13 - Okay, the first shark to bail or say, I'm not interested.
28:17 I'm not going to invest is Robert Herjavec,
28:19 the Canadian shark or investor.
28:22 And that's a respectable thing to say.
28:24 This is not my cup of tea.
28:26 I typically invest in other businesses,
28:27 other kinds of business activity that I'm familiar with.
28:30 I don't know much about the space.
28:31 I can't help you grow the business
28:33 other than just give you the money.
28:35 And I'm not interested in investing
28:36 in something that I don't understand that well.
28:39 So I'm not gonna invest.
28:40 That's his position.
28:41 This is respectable, and that's all okay of course.
28:44 But from the entrepreneurs' perspective,
28:46 this is a little problematic
28:47 because the entrepreneurs cannot tap into the brain,
28:51 the thinking, the experience of one of the sharks.
28:54 So they're left with four of the five sharks
28:56 still interested, arguably, in the business
28:59 and still they will ask questions, provide some advice.
29:02 And the interaction itself will provide
29:04 some information to the entrepreneurs.
29:06 So at this point, one shark leaving
29:09 is actually a little bit of a loss for the entrepreneurs,
29:13 not because of the money,
29:14 but more so because of the decreased channel
29:17 of communication and information
29:18 they will get from that shark.
29:20 But still there's four.
29:21 (dramatic music)
29:23 - What's the most popular piece there that sells the most?

29:26 - Our leg chains are really popular.
29:29 - What about that leg?
29:30 Is another one, a leg chain like that?
29:32 - [Mackenzie] Yeah, this is called a slim garter.
29:34 - [Kevin] How much does that sell for?
29:35 - I'll take that.
29:37 (shark laughs)
29:39 - Do you have it in his size?
29:40 - [Kevin] I want that right on my leg.
29:41 - What about the beard?
29:42 Could I see one on the beard?
29:43 - [Rachael] Yes,
29:44 absolutely, here. - I'd love to.
29:44 - All right, so you might have to put these on.
29:47 - Once you put it on, you have to kind of adjust it.
29:50 (Barbara laughs)
29:50 - [Kevin] He can go incognito tonight.
29:52 (women laugh)
29:54 - That is so perfect for Kevin.
29:56 You're putting it on the wrong guy.
29:57 - That is cool.
29:59 - Daymond, what are you doing?
30:00 - Well, okay, here's the deal.
30:06 This is basically what we call in our business
30:08 a designer offer.
30:10 And the designers, normally,
30:12 the top end of the deal is they get 35%
30:16 because they're just designers.
30:18 Now I will give you the 80,000
30:22 (suspenseful music)
30:25 for 70%. (dramatic music)
30:29 - [Barbara] 70?
30:30 - But if we're willing to do the work, like you said?
30:32 - Then I will let you buy back in
30:36 to acquire what you initially asked for, 80,000.
30:40 - Let me pause one more time.
30:43 What Daymond is saying here is actually
30:46 very valuable business information for all entrepreneurs.
30:50 Everybody can start a business, any business.
30:52 You could start designing something.
30:54 You could start selling baseball cards
30:55 or make handmade jewelry.
30:57 You can start washing people's cars,
30:59 start lawn mowing people's lawns.
31:01 Any kind of business activity could be started
31:02 by anyone pretty much.
31:04 And that will be entrepreneurial.
31:05 And that will be very nice.
31:06 But this is at the micro level of operations,
31:09 if you will, one person doing something manually,
31:12 spending time to mow the lawn or design jewelry and sell it.
31:15 These are categorically at the lowest end of the scale
31:19 of entrepreneurial activity, if you will,
31:22 and again, anybody can start this business

31:24 and it may provide a good amount of money,
31:26 and you can make a living out of that.
31:28 There are people who are operating landscaping businesses
31:31 for example, on the side as students
31:33 or as their primary jobs,
31:35 and they're making a living and that's fine.
31:37 But when you think about going to the next level,
31:40 operating on a regional level,
31:42 being the one of the leading lawn mowing companies
31:44 or one of the best jewelry designers in the region,
31:47 you will need to work with a distribution channel
31:50 or some companies, some distributors,
31:52 who are in the business of connecting
31:55 small scale micro scale entrepreneurs, designers,
31:58 service providers, with a large scale
32:02 or a larger number of customers in a certain region.
32:05 That's stepping up the game one level, if you will,
32:08 if this were a computer game, for example.
32:10 Now if you wanna continue doing this
32:12 and operate at the national scale
32:14 you need to talk to some large-scale brokers.
32:16 And Daymond is providing that information.
32:18 When he says, this is what we call a designer offer,
32:22 the we that he refers to is a group of people
32:25 who own large scale companies,
32:27 which have warehouses trucks, shipping systems,
32:30 and software, and people who know how to ship stuff
32:33 to stores, keep track of how fast they sell or not.
32:37 And the whole infrastructure business, if you will,
32:40 in that retail space.
32:41 So somebody's gonna design something cool.
32:44 It could be something of a fad like the fidget spinners
32:47 of a couple of years ago, which spiked and went down.
32:50 Or it could be something like clothing or some jewelry item
32:54 like this business is offering.
32:56 Whatever is being offered,
32:57 there'll be multiple, many, many examples
33:00 of those kinds of offerings,
33:01 but there will be an infrastructure
33:03 dealing with or connecting the entrepreneurs
33:06 with the markets.
33:08 So this is what he's talking about.
33:09 There's an established procedure.
33:11 There are established kind of rules,
33:13 and as entrepreneurs, we should always think
33:14 about how to break those rules,
33:16 how to get ahead of competition,
33:18 how to do things in different than creative ways.
33:20 We should look into those kinds of things.
33:23 But until we get to a more powerful position
33:26 in the market where we can dictate the margins,
33:28 where we can dictate the prices or terms,
33:31 we will need to follow the existing mechanisms
33:33 because they're efficient, because they work.

33:36 And that's one important benefit of talking to older people
33:40 people who are in established, maybe boring businesses
33:44 where they can provide you those kinds
33:45 of infrastructure-related knowledge about the business.
33:49 And I'm not talking about payment processing
33:51 or there's a whole bunch of different aspects of this.
33:53 But what Daymond is saying is, you guys are designers.
33:56 We like your design and you have the potential to grow this.
33:59 But there's a partnership structure where the distributors,
34:03 the warehouse operators like Daymond
34:04 and the people that he talks to, he meets with,
34:07 he does business with, that's a group of people.
34:09 And there's another group of people
34:11 who are creators, artists, designers, innovators.
34:14 And when you connect these two in some reasonable term
34:17 it provides for the growth of a venture.
34:20 Both parties benefit from this.
34:22 And as you watch these kinds of videos,
34:24 as you read anecdotal experiences of entrepreneurs,
34:27 books about the backgrounds of people
34:29 like Anita Roddick or any other entrepreneur
34:32 that you're interested in,
34:33 you learn about these things,
34:35 the insider knowledge, and that's valuable.
34:37 Even though there aren't a lot of numbers here,
34:39 we start learning about how this infrastructure works
34:41 in a better way.
34:43 - For 70%, wow.
34:45 - [Daymond] It doesn't make any money.
34:46 - You know, Daymond, you would never make that offer
34:49 to a male designer, no way.
34:51 - Oh, here comes her. - Whoa.
34:53 - Barb. - Say what you want.
34:55 - Guys, here's part of the challenge,
34:56 and I'm gonna sell myself here.
34:57 Part of this challenge is now
34:59 you still have to figure out how to pay yourselves.
35:01 - No, I'm sorry, I'm sorry.
35:02 Excuse me.
35:04 So it's \$80,000 for 70% of your company,
35:07 but you will also get salaries as well.
35:10 So you'll have salaries and you'll have profit.
35:13 (dramatic, squeaky music)
35:15 - Well, you better ask about the salary, girls.
35:18 - [Rachael] Yeah.
35:18 - It better be a lot to make up
35:19 for what he's taking from you.
35:21 - We would have to agree on it.
35:23 - I mean...
35:24 - What's a typical designer make?
35:24 - What kinda salary are you willing to pay us?
35:25 - It all depends on the business.
35:27 A typical designer ranges from 50,000 to 250,000.
35:30 - Did you catch that?

35:32 Mark Cuban, the successful entrepreneur,
35:34 who is the owner of Dallas Mavericks,
35:36 who's a very successful businessperson,
35:38 ask the investor sitting next to him,
35:40 what does a typical designer make?
35:41 Because he doesn't know it.
35:42 And that's okay.
35:43 There is a lot that a lot of accomplished,
35:46 successful, experienced businesspeople don't know
35:48 about business or some aspect of business.
35:51 And that's totally fine.
35:52 If you can get yourself in a room with people
35:54 who are knowledgeable and who have good intentions,
35:57 who wanna work with you, invest in your business,
35:59 be your partner, you have a great opportunity to learn a lot
36:02 about how business works, the rates,
36:05 the typical deal structures,
36:06 who does what, when, what, how does it work basically?
36:09 This is an important thing that a lot
36:11 of people tend to underestimate.
36:13 I wanna highlight this one more time.
36:14 The numbers are the easier part.
36:16 We can always calculate the break-even analysis,
36:19 how many units you need to sell to recoup
36:21 your initial investment
36:22 or what's the optimal inventory amount?
36:24 We have formulas for this.
36:25 We have a lot of tools for that,
36:27 but how does this work is a bigger question
36:30 that we don't often get to ask
36:31 because there are so many different things,
36:33 different mechanisms in business
36:35 that they're all interesting.
36:37 Sometimes they give you an opportunity to innovate
36:39 in the business model
36:41 and come up with a new way of doing things.
36:42 And if you're the first doing that, you can be rich,
36:45 and you can be successful just by changing a business model.
36:48 But I would encourage any person interested
36:50 in entrepreneurship, starting their business,
36:52 or being innovative entrepreneurial thinkers
36:55 in established organizations to talk to people.
36:58 Don't hesitate.
36:59 Don't fear asking a question, which will make you look fool
37:02 or like, oh, this person's a novice.
37:04 Remember Mark Cuban.
37:05 He just turned around and said,
37:06 what does a typical designer get?
37:08 Because he doesn't know it.
37:09 And it's totally fine asking this.
37:11 - [Mark] That's a big range. - I was gonna say, we wanna be
37:14 on the higher end. - [Daymond] It all depends
37:15 on the design. - Yeah, no kidding, right?
37:16 - I think that's all in the details.

37:18 But right now, what I'm willing to do is \$80,000,
37:23 70%, make you guys the head designers.
37:26 If you want, and you feel you can run the company,
37:29 I'll go right back down to the 51%.
37:32 (suspenseful music)
37:34 - Don't 'til you know you have other offers coming.
37:36 - But unfortunately, if you entertain the other offers,
37:38 I'm gonna pull back.
37:39 (Kevin groans)
37:41 (dramatic music)
37:49 - That's a pickle.
37:51 - [Narrator] One shark is out.
37:52 Daymond has made an offer of \$80,000 for a 70% stake
37:57 and an annual salary for Rachael and Mackenzie.
38:00 But he has also said that he will back out
38:02 if they entertain anyone else's offer.
38:07 - Let me talk to this guy.
38:08 Daymond, what if we did this:
38:09 \$40,000 each, I'll deal with the website side of it.
38:12 - I don't think you've nailed down a salary.
38:14 That's a broad range of salary.
38:17 - Barbara, what do you think?
38:18 - Rachael, Rachael, Rachael.
38:19 - [Barbara] I can't get a word in.
38:21 - Mark just offered to come in half with me
38:23 and he'll handle the website. - Website side.
38:26 - And I'll handle the manufacturing and the retail side.
38:30 - So his strength is the retail, manufacturing.
38:33 Mine is the internet, internet marketing, social media.
38:37 You'll get the best of both worlds.
38:39 - By the way, I know the president of Urban Outfitters,
38:41 and I work with the number one guy
38:43 who provides 80% of all the jewelry in America.
38:48 - Just to make things interesting and to help you
38:50 'cause I love you guys,
38:51 I'll just do the deal you want.
38:52 I'll give you the 80,000 for 51%,
38:54 and I don't bring any of the expertise
38:56 of the jewelry business at all.
38:58 - The one thing you said you needed
38:59 - Because I'm honest about it.
39:01 I'm a financial investor.
39:02 - What connections are you gonna put us in line with
39:05 that are gonna help it?
39:06 - More money.
39:07 - I hate to do it, but I'm gonna give you
39:09 what Mark usually does, what is it, a 24-second?
39:13 - Oh, the 24-second clock.
39:15 - No, you're not gonna give it.
39:16 Hold on a moment, girls, right here.
39:18 (sharks clamoring)
39:20 - To clarify, I'm giving you a 24 second time clock.
39:22 - Rachael, listen... - Mark and I are coming in
39:24 at 80,000. - Listen to me.

39:26 - [Daymond] Half and half.
39:27 You will also get salaries.
39:29 - Lemme tell you what I'm going to give you.
39:31 Please, he's gonna try to close it down.
39:33 - [Daymond] I will handle retail.
39:33 - [Barbara] So you don't get a better bid.
39:34 - I'm gonna start your 24-second time clock right now.
39:43 - What would you do?
39:45 Would you accept the offer?
39:52 I told you TV needs drama.
39:54 So there's gonna be some tension, some excitement,
39:56 but there is an official offer.
39:58 It's binding.
39:59 So if the entrepreneurs accept this
40:01 they'll eventually sign a contract.
40:03 Then they'll be in business.
40:04 Remember, many of the "Shark Tank" pitches
40:06 end up with an investor putting money
40:09 in the entrepreneur's venture
40:10 and becoming a partner with them.
40:12 So would you accept the offer?
40:18 It's a difficult question.
40:19 You just have to say yes or no, but (groans).
40:28 Okay, we have one answer.
40:30 There's no right or wrong answer in these questions.
40:32 You just take a position based
40:34 on your background, your preferences, your choices.
40:36 And we discuss, what are the pros and cons
40:38 of doing this or that?
40:39 So don't feel bad if you got the wrong answer.
40:42 There's no wrong answer.
40:43 What do you think is what matters?
40:49 Take a few more seconds maybe.
40:50 Remember, they don't have this much time.
40:51 They had to rush and answer in 24 seconds.
40:54 So I'm not gonna put the same pressure on you,
40:56 but try to emulate this, try to simulate this in your mind.
41:00 What would I have done if I were in their shoes?
41:06 I'll give you 10 more seconds to answer if you want to.
41:17 Okay, so we have one answer who says yes.
41:21 Let's hear what the entrepreneurs said.
41:23 - We're gonna take a walk.
41:23 I'll bring them 'em after that.
41:24 - For 70% of the company.
41:27 - Yes. - Thank you.
41:30 - He said yes. - Oh my God.
41:32 - Congratulations. - Thank you so much.
41:35 - Congratulations. (everyone clamoring)
41:36 - Love you, Barbara, so much.
41:38 - Thank you, we're so excited.
41:39 - [Daymond] Not on my watch, Barbara.
41:41 (Rachael laughs) - What?
41:43 - We love you, Barbara.
41:44 Seriously, we really love you.

41:45 - Too bad, girls.
41:46 - [Rachael] Thanks, guys.
41:48 - Thank you, guys, congratulations.
41:49 - Bye.
41:50 - [Barbara] It's like watching the lambs
41:51 go to the slaughter house.
41:52 Oh my God, you were vague.
41:54 You gave them a lousy deal, ay, ay, ay.
41:58 (vocalizes)
41:59 - Just go wear that outfit.
42:00 - Let's look at the entrepreneurs in the short video.
42:02 - We went in there wanting to be partners
42:04 with Daymond and Mark.
42:05 I mean, those were our two favorites.
42:06 Those are the ones we went for.
42:07 And gosh, we got it, and we're just feeling amazing.
42:10 - Okay, let me end the share of the video
42:14 because we're done with the video.
42:16 I hope you will remember a couple of things from the video.
42:19 And there's a whole bunch of things that you could remember
42:22 but let me highlight one thing.
42:24 The two entrepreneurs seemed very naive
42:26 at the beginning of the pitch,
42:28 at the beginning of the interaction.
42:29 There was a nice video shop beforehand.
42:31 And if you've paid any attention
42:33 to the contents of the video, they're working areas,
42:36 the computers they had on their tables.
42:38 This was shot back in 2013 or 14, many years ago,
42:42 but they had the highest end Mac computer
42:44 on their screen, on their table.
42:46 They had a nice really well-manicured backyard.
42:49 Their clothes were nice.
42:50 So these people were not trying to make ends meet
42:53 as single moms working in two or three jobs.
42:56 Financially, they seem to be okay.
42:58 They also mentioned their husbands are working arguably
43:00 or expectedly in some tech
43:02 or internet-related business in the West Coast, in LA.
43:05 So these people did not have a financial pressing
43:09 need to make a lot of money.
43:11 It's a hobby that they took up and it worked.
43:14 They got a lot of recognition, attention.
43:16 They started selling this,
43:17 even though they probably did not need to sell
43:20 and make money but it was the nature
43:22 of like business pull them in, wonderful.
43:24 And now they came to "Shark Tank"
43:26 to basically not get money,
43:28 not grow the business,
43:29 but partner with the two people that they thought,
43:32 correctly, are the best two people on that panel.
43:36 Again, this is five peers, five people.
43:39 Kevin O'Leary is a financial investor.

43:41 His expertise is in different areas.
43:43 Barbara Corcoran is in real estate primarily.
43:46 Surely he invested in a bunch of different businesses,
43:48 but she doesn't necessarily know about fashion
43:51 or how to sell things to people online.
43:55 Kevin O'Leary and sorry, Robert Herjavec,
43:58 the other person, also has expertise in a different area.
44:01 So the two people that were relevant
44:03 that the entrepreneurs actually wanted to partner with,
44:07 likely at all costs, under whatever circumstances,
44:10 were Daymond and Mark Cuban, and they got the right people.
44:14 So if you look at the whole experience,
44:17 and if you think about,
44:18 did they achieve what they actually wanted to?
44:20 Probably yes, and it's not just the money,
44:23 it's the connections, it's the knowledge,
44:24 and a whole bunch of other things.
44:26 That's the main takeaway lesson
44:29 that I hope you'll remember from this video
44:31 and the discussion.
44:32 There's numbers.
44:32 There's interesting stuff.
44:34 But at the end of the day,
44:35 we need to focus on what we're trying to achieve
44:37 in these pitches and these kinds of discussions.
44:39 And we will have many more conversations
44:42 and videos and discussions like this in our classes.
44:45 So if you like it, let us know.
44:48 I'll hand it over back to Evelyn.
44:49 Thank you for your attention.
44:51 - Thank you, Professor Huvaj,
44:52 for such a truly wonderful class
44:55 and thank you to all our attendees for joining us.
44:59 We're excited for you to join the Suffolk community.
45:02 Be sure to check out suffolk.edu/admitted to learn more
45:06 about admitted student events like these.
45:09 Thank you again, everybody.
45:11 Have a great weekend.
45:13 - Thank you.