Hi and welcome, everyone.

Thank you so much for joining us today.

We have a really great class prepared for you.

I wanna start by congratulating you all on your acceptance to Suffolk.

We are so excited to have you with us today.

As you continue your journey throughout the college search process.

My name is Evelyn Espitia, and I'm an admission officer here at Suffolk, as well as the proud Suffolk alum.

I recruit in the states of Pennsylvania, New Jersey, and California.

So if any of our attendees are here from those areas, it's likely that I visited your school or even had the pleasure of reading your application.

So here at Suffolk, we have two schools of study.

We have the College of Arts and Sciences and the Sawyer Business School.

Some of you may already know exactly what you want to study or some of you may have a long list of ideas.

And some of you may have no idea at this time, and that's perfectly okay.

We have over 70 different majors for you to choose from.

As a member of the business school, you'll be steps away from life-changing internships, career connections, and Fortune 500 companies.

Our classroom experiences are enhanced by our location.

Being in the center of downtown Boston means you'll be right in the middle of innovation.

So joining us today is Nesij Huvaj, an instructor in our management and entrepreneurship department.

He's got a great class planned for you.

If you have any questions throughout today's presentation please feel free to use the raised hand function and we'll unmute you.

We'll unmute you and we'll talk.

You can type your questions in the chat.

Professor Huvaj, I'll let you take it from here.

Welcome everybody.

My name is Nesij Huvaj, an associate professor of management and entrepreneurship at the Sawyer Business School.

I'm here today to go over a class that I do with my students that I present to and discuss with my students.

In fact, I discuss the video that I'm gonna show you and ask questions about, dissect, and spend some time on.

About three months ago, two and a half months ago or so, in the beginning of the spring semester,
This was the second class in my undergraduate course titled Measuring Value, ENT 319. This is a required course for entrepreneurship majors in which we look into quantitative aspects of the entrepreneurial journey of individuals and startups, businesses.

We examine different issues like how to scale and grow the business. What are some considerations about funding? When do you break even? How do you manage inventory? How do you scale up a whole bunch of quantitative things, but discussed in a very practical way? So this is not an accounting class or a finance class, but we use accounting knowledge and finance knowledge to actually make better decisions as entrepreneurs.

That's the reason why this course exists. Today, I would like to show you a video from "Shark Tank," an entrepreneurial pitch of two sisters who are in the jewelry design business. And there's a number of really interesting aspects or characteristics of the business of these two ladies. And we will discuss some numerical quantitative considerations.

And one of the goals that we will have in this conversation will be to understand the some secret or hidden or not clearly visible background information about the entrepreneurs, about their ventures, some of the assumptions that they are making, correctly or wrong, and how we can use that information to gauge the potential for success of the venture. We will pretend to be investors imitating the "Shark Tank" investors, the sharks, but we will also think like entrepreneurs at different times.

So let's get started. This is my video that I will show you. It's about 10, 11, or 12 minutes long in total, but I will pause it every now and then to ask you a couple of questions. So I hope you will pay attention to the words that they say, the numbers that they mentioned about their profit margins, how much it costs to do certain things. There is of course, some drama aspect. This is from a TV show after all. And the producers, of course, want their show to be watched by a lot of people. They want to create some buzz around how interesting and cool the idea or the venture is. And of course, there'll be some promotional material in it in terms of how the business will be perceived, but we'll be focusing on the underlying numbers 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
their business to be worth?
Okay, we have two respondents as of now.
I'll end the polling and share the results with you.
Both respondents got the number right.
It's about $160,000.
Now I don't want you to think like, "Oh man, this was easy.
"Are we going to spend the whole semester
"discussing these kinds of simple numbers?"
It gets a little more complicated.
This is just the warmup phase.
But it's an example of how we deal with numbers
in entrepreneurial finance.
Unlike traditional finance
where banks, insurance companies,
or established institutions are concerned
with valuing companies for providing loans
or credit to companies.
In the entrepreneurial finance landscape,
most of the time, we're dealing with very small startups,
some companies, some venture that was started
several months ago, maybe a year ago.
So we don't have a track record.
We don't have five years, eight years,
10 years of historical data
in terms of how much money the company made,
how much was the expenses,
how much they grew in number of customers
or revenue and those kinds of numbers.
We typically don't have them.
So we have to think about the potential of the business,
how much it can grow into the future.
And that's why valuations, for example,
are not very well justified.
It's in the eye of the beholder, if you will.
And oftentimes you will hear from some pros experts
in that space to say something like valuation of startups
or small entrepreneurial ventures is an art and science,
more art than science, they would say,
simply because we don't have historical data.
So these ladies, the two sisters, entrepreneurs,
think their business is worth about $160,000.
We got that number right.
Now let's continue listening to their pitch.
And I'll ask you a couple of other questions
about their products, their profit margins, and whatnot.
So pay attention to the numbers.
Litter was started in 2009
when I broke up the necklace
and wore it in hair as a headpiece.
We were approached by a friend to make many more
headpieces and sell 'em in a local jewelry show.
Rachael and I went around to all the flea markets,
vintage stores, thrift stores in our area
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.
And one time when we had a conversation, he casually said something like this: more than 50% of all the money that we give to startups, that the venture capital companies invest in startups, end up in the pockets of Google or Facebook. So he's the person, or he used to be the person. He changed jobs now, but when he was a venture capital manager, he was doing deal screening very much like what we're seeing on "Shark Tank," except with slightly larger numbers, slightly later stage ventures, one, two-year-old companies typically. And the conversation they typically have, venture capitalists, have with entrepreneurs is around how much money do you need to scale up to the next level, to the national or global scale, to amp up your productions and your distribution to reach to more customers? Oftentimes, most of the money, more than 50% of the money that the venture capital company gives to or invests in startups is spent on advertisements online on Google's Ad-words systems or platforms, YouTube maybe, and Facebook and those kinds of platforms. I think this is important to remember in this day and age, in 2020s, we can not think of traditional business expenditures and revenue models. We have to think about what actually happens in the market in the business world. And it's the fact of the business world now that advertising marketing takes up more than half of startup funds, which are really valuable and hard to get. I just wanted to point out that these ladies, this company here, had done something remarkable in that they didn't spend any money to achieve the success that they've achieved. Important to remember - [Kevin] How big is Litter now? What were sales last year? What are they gonna be this year? Last year our sales were 78,000, and this year we're on track for 150. Why are sales so small? We're hand-making every single piece ourselves right now. The average price is a hundred, around a hundred dollars. And what's your most expensive piece? The average price is a hundred, around a hundred dollars. And then what does it cost you to make one? About $2. 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.
So there are some additional kinds of expenses that they don't talk much about yet.
The only thing that they're focusing on is the material costs that goes into their products.
And that's fine.
They're not doing this to mislead us, but they're being a little naive as entrepreneurs, if you will.
So as we're listening to pitches like this, as we're thinking about what's the information communicated?
What's the implication of that for investment, for growth?
We have to put these things together, like the pieces of a jigsaw puzzle.
It's not just the video and the fun, interesting bits that we're listening to.
There are all these new numerical components about the cost structure, how much things are sold for,
profit margins, scaling issues, additional business-related expenses and all those things that are brushed through.
We're trying to uncover them and just spend some time to analyze those.

- [Rachael] 1,600.
- This is an example of the kind of custom work that we do for celebrities music videos.
- We've been pulled for like Kesha, Ciara, Lady Gaga,
- So do you have pending orders that can't keep up with? - [Rachael] We do.
- Well, we just got picked up by Urban Outfitters, and they are having us design an exclusive collection for them.
- Are they guaranteeing a certain order quantity?
- Right now, it's a 400-piece order.
- We have a 400-piece PO.
- And they're gonna see how it goes.
- [Rachael And Mackenzie] Exactly.
- You guys are making everything by hand.
- [Rachael And Mackenzie] Everything.
- That's craziness, right?
- Can somebody else make these or is it required that special touch that you guys have?
- Other people can make 'em.
- The designs are set by us and from there other people can take it from there.
- I'm trying to figure out how to ramp this up 'cause I mean, it's hip, it's fashion.
- You're the designer babes
- You need somebody behind you or in front of you that's selling this and getting huge orders.
- We would like the money to go 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.
19:19 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,
25:25 the channels through which we sell them, maybe online,
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. 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.
and it may provide a good amount of money, and you can make a living out of that. There are people who are operating landscaping businesses for example, on the side as students or as their primary jobs, and they're making a living and that's fine. But when you think about going to the next level, operating on a regional level, being the one of the leading lawn mowing companies or one of the best jewelry designers in the region, you will need to work with a distribution channel or some companies, some distributors, who are in the business of connecting small scale micro scale entrepreneurs, designers, service providers, with a large scale or a larger number of customers in a certain region. That's stepping up the game one level, if you will, if this were a computer game, for example. Now if you wanna continue doing this and operate at the national scale you need to talk to some large-scale brokers. And Daymond is providing that information. When he says, this is what we call a designer offer, the we that he refers to is a group of people who own large scale companies, which have warehouses trucks, shipping systems, and software, and people who know how to ship stuff to stores, keep track of how fast they sell or not. And the whole infrastructure business, if you will, in that retail space. So somebody's gonna design something cool. It could be something of a fad like the fidget spinners of a couple of years ago, which spiked and went down. Or it could be something like clothing or some jewelry item like this business is offering. Whatever is being offered, there'll be multiple, many, many examples of those kinds of offerings, but there will be an infrastructure dealing with or connecting the entrepreneurs with the markets. So this is what he's talking about. There's an established procedure. There are established kind of rules, and as entrepreneurs, we should always think about how to break those rules, how to get ahead of competition, how to do things in different than creative ways. We should look into those kinds of things. But until we get to a more powerful position in the market where we can dictate the margins, where we can dictate the prices or terms, we will need to follow the existing mechanisms because they're efficient, because they work.
And that's one important benefit of talking to older people who are in established, maybe boring businesses where they can provide you those kinds of infrastructure-related knowledge about the business. I'm not talking about payment processing or there's a whole bunch of different aspects of this. But what Daymond is saying is, you guys are designers. We like your design and you have the potential to grow this. There's a partnership structure where the distributors, the warehouse operators like Daymond and the people that he talks to, he meets with, he does business with, that's a group of people. And there's another group of people who are creators, artists, designers, innovators. And when you connect these two in some reasonable term it provides for the growth of a venture. Both parties benefit from this. And as you watch these kinds of videos, as you read anecdotal experiences of entrepreneurs, books about the backgrounds of people like Anita Roddick or any other entrepreneur that you're interested in, you learn about these things, the insider knowledge, and that's valuable. Even though there aren't a lot of numbers here, we start learning about how this infrastructure works in a better way.

- For 70%, wow.
- [Daymond] It doesn't make any money.
- You know, Daymond, you would never make that offer to a male designer, no way.
- Oh, here comes her. - Whoa.
- Barb. - Say what you want.
- Guys, here's part of the challenge, and I'm gonna sell myself here. Part of this challenge is now you still have to figure out how to pay yourselves.
- No, I'm sorry, I'm sorry.
- Excuse me.
- So it's $80,000 for 70% of your company, but you will also get salaries as well.
- So you'll have salaries and you'll have profit.
- (dramatic, squeaky music) Well, you better ask about the salary, girls.
- [Rachael] Yeah.
- It better be a lot to make up for what he's taking from you.
- We would have to agree on it.
- I mean...
- What's a typical designer make?
- What kinda salary are you willing to pay us?
- It all depends on the business.
- A typical designer ranges from 50,000 to 250,000. Did you catch that?
Mark Cuban, the successful entrepreneur, who is the owner of Dallas Mavericks, who's a very successful businessperson, ask the investor sitting next to him, what does a typical designer make? Because he doesn't know it. And that's okay. There is a lot that a lot of accomplished, successful, experienced businesspeople don't know about business or some aspect of business. And that's totally fine. If you can get yourself in a room with people who are knowledgeable and who have good intentions, who wanna work with you, invest in your business, be your partner, you have a great opportunity to learn a lot about how business works, the rates, the typical deal structures, who does what, when, what, how does it work basically? This is an important thing that a lot of people tend to underestimate. I wanna highlight this one more time. The numbers are the easier part. We can always calculate the break-even analysis, how many units you need to sell to recoup your initial investment or what's the optimal inventory amount? We have formulas for this. We have a lot of tools for that, but how does this work is a bigger question that we don't often get to ask because there are so many different things, different mechanisms in business that they're all interesting. Sometimes they give you an opportunity to innovate in the business model and come up with a new way of doing things. And if you're the first doing that, you can be rich, and you can be successful just by changing a business model. But I would encourage any person interested in entrepreneurship, starting their business, or being innovative entrepreneurial thinkers in established organizations to talk to people. Don't hesitate. Don't fear asking a question, which will make you look fool or like, oh, this person's a novice. Remember Mark Cuban. He just turned around and said, what does a typical designer get? Because he doesn't know it. And it's totally fine asking this. - [Mark] That's a big range. - I was gonna say, we wanna be on the higher end. - [Daymond] It all depends on the design. - Yeah, no kidding, right? - I think that's all in the details.
But right now, what I'm willing to do is $80,000, 70%, make you guys the head designers.
If you want, and you feel you can run the company, I'll go right back down to the 51%.
(suspenseful music)
Don't 'til you know you have other offers coming. But unfortunately, if you entertain the other offers, I'm gonna pull back.

(kevin groans)
(dramatic music)
That's a pickle.

- [Narrator] One shark is out.
Daymond has made an offer of $80,000 for a 70% stake and an annual salary for Rachael and Mackenzie.
But he has also said that he will back out if they entertain anyone else's offer.

- Let me talk to this guy.
- Daymond, what if we did this:
  - $40,000 each, I'll deal with the website side of it.
- I don't think you've nailed down a salary.
- That's a broad range of salary.
- Barbara, what do you think?
- Rachael, Rachael, Rachael.
- [Barbara] I can't get a word in.
- Mark just offered to come in half with me and he'll handle the website.
- And I'll handle the manufacturing and the retail side.
- So his strength is the retail, manufacturing.
- Mine is the internet, internet marketing, social media.
You'll get the best of both worlds.
- By the way, I know the president of Urban Outfitters, and I work with the number one guy who provides 80% of all the jewelry in America.
- Just to make things interesting and to help you 'cause I love you guys,
  - I'll just do the deal you want.
  - I'll give you the 80,000 for 51%, and I don't bring any of the expertise of the jewelry business at all.
- The one thing you said you needed
- Because I'm honest about it.
- I'm a financial investor.
- What connections are you gonna put us in line with that are gonna help it?
- More money.
- I hate to do it, but I'm gonna give you what Mark usually does, what is it, a 24-second?
- Oh, the 24-second clock.
- No, you're not gonna give it.
- Hold on a moment, girls, right here.
(sharks clamoring)
- To clarify, I'm giving you a 24 second time clock.
- Rachael, listen... - Mark and I are coming in
- at 80,000. - Listen to me.
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 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 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 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 but let me highlight one thing.
42:24 The two entrepreneurs seemed very naive at the beginning of the pitch, at the beginning of the interaction.
42:28 And if you've paid any attention to the contents of the video, they're working areas, the computers they had on their tables.
42:33 This was shot back in 2013 or 14, many years ago, but they had the highest end Mac computer on their screen, on their table.
42:44 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 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 or expectedly in some tech or internet-related business in the West Coast, in LA.
43:00 or expectedly in some tech or internet-related business in the West Coast, in LA.
43:05 So these people did not have a financial pressing 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, even though they probably did not need to sell and make money but it was the nature of like business pull them in, wonderful.
43:24 And now they came to "Shark Tank" to basically not get money, not grow the business, but partner with the two people that they thought, correctly, are the best two people on that panel.
43:32 Again, this is five peers, five people.
43:36 Kevin O'Leary is a financial investor.
43:38 This was shot back in 2013 or 14, many years ago, but they had the highest end Mac computer on their screen, on their table.
43:46 They had a nice really well-manicured backyard.
43:49 Their clothes were nice.
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.